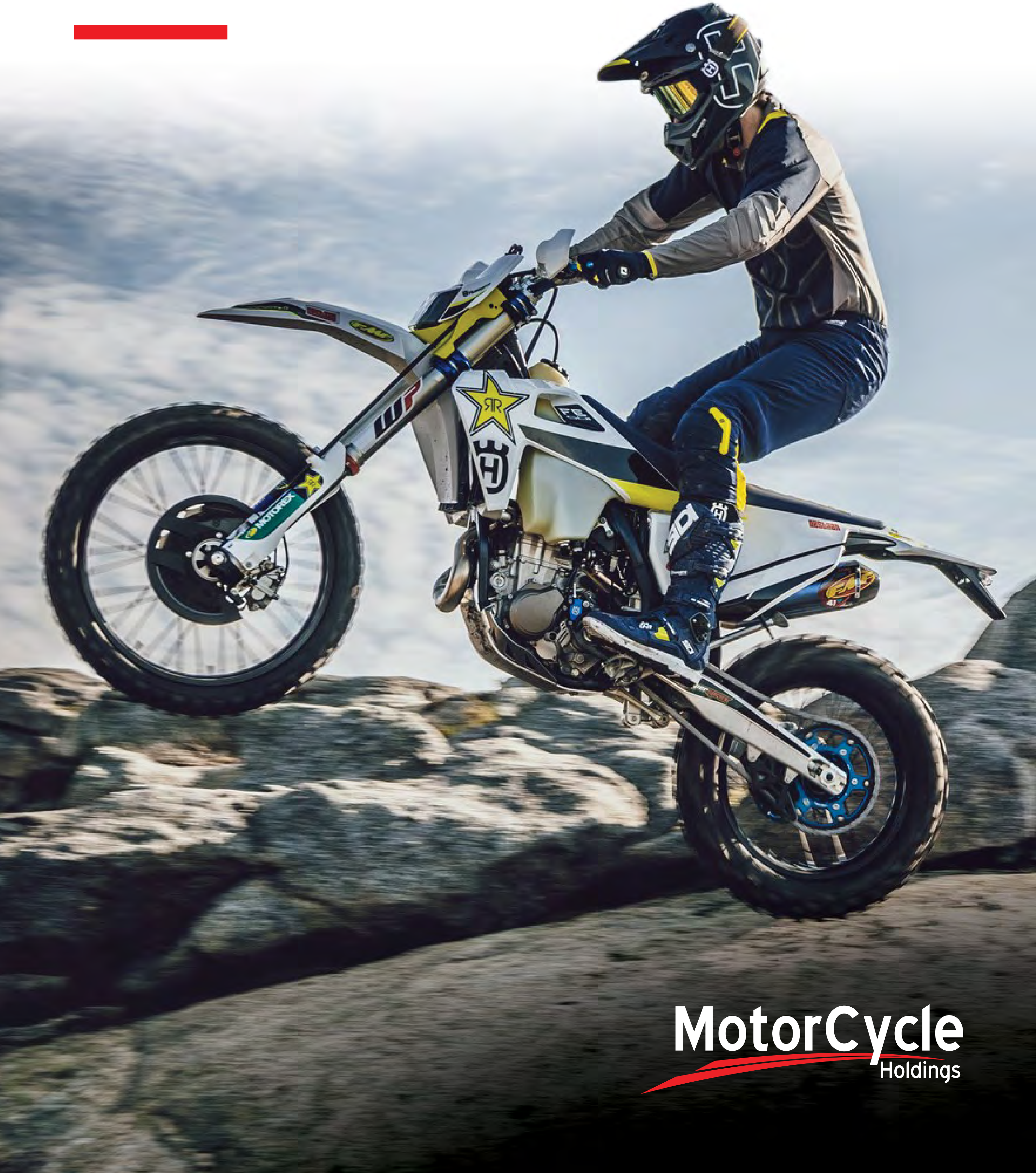
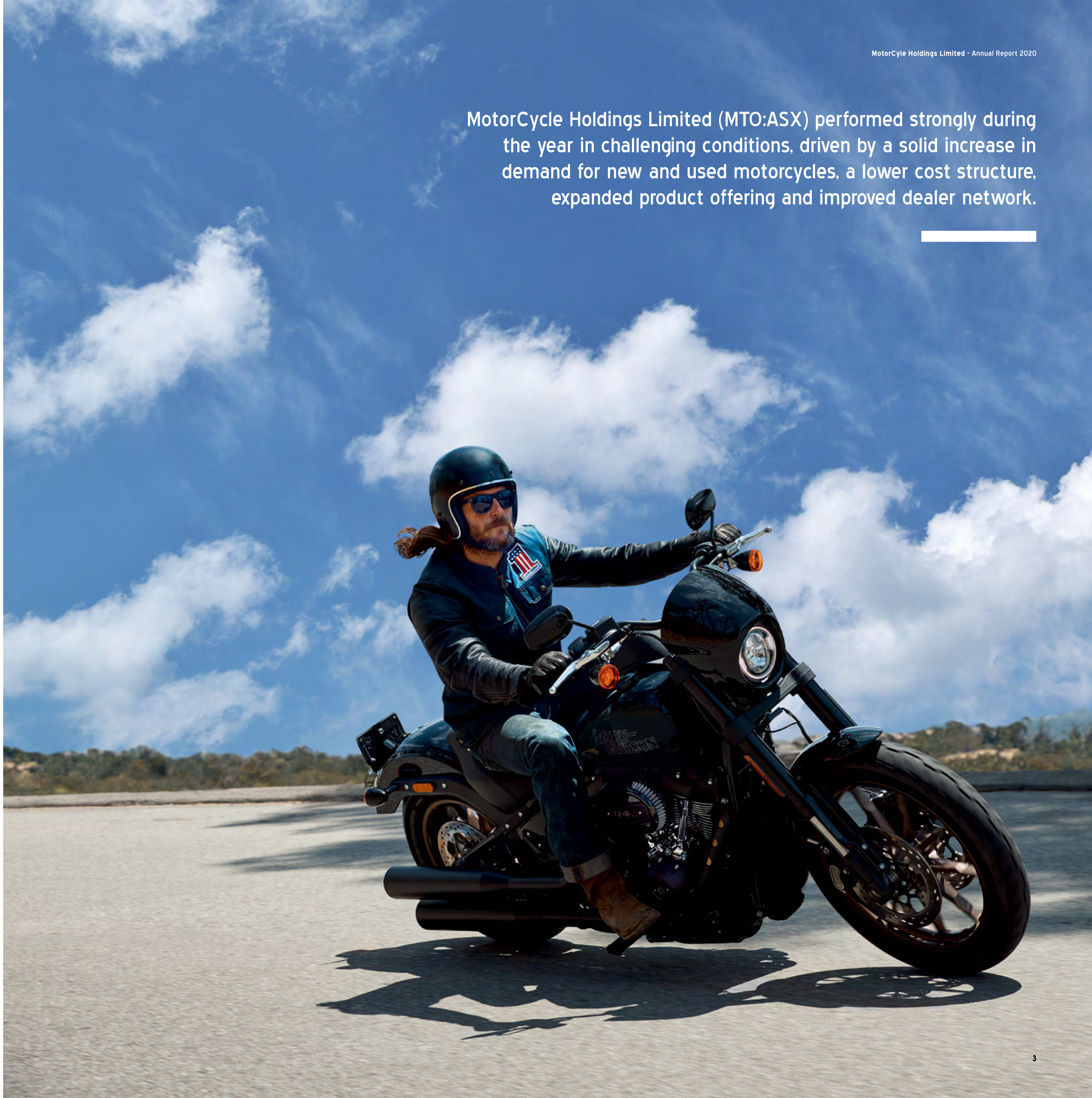
MOTORCYCLE HOLDINGS LIMITED

ANNUAL REPORT 2020



Contents

MotorCycle Holdings Limited (MTO:ASX) performed strongly during the year in challenging conditions, driven by a solid increase in demand for new and used motorcycles, a lower cost structure, expanded product offering and improved dealer network.



Chair's Report

David Foster

CHAIR

MotorCycle Holdings Limited (ASX: MTO), achieved a strong performance for the year to 30 June 2020 driven by a solid increase in sales for new and used bikes, a lower cost structure, expanded product offering, improved dealer network and COVID-19 government support programs.

The financial year was characterised by challenging trading conditions, however the company's performance in the last quarter exceeded expectations and was primarily driven by a sales resurgence in recreation and leisure products on the back of COVID-19 restrictions.

Due to the improved trading conditions, your Directors have decided to declare a special dividend of 5 cents per share. Directors have not declared an ordinary dividend and intend to maintain strong cash reserves to protect against short term volatility and provide capacity for opportunities that may arise.

Key features of the company's financial performance for the year included sales revenue increasing 10.3% to $363,712,000 (2019: $329,887,000) with Underlying EBITDA increasing 53.6% to $27,617,000 (2019: $17,985,000).

The company ended the year in a strong cash position increasing to $39,494,000 from $9,175,000 in 2019, so we have taken the opportunity to pay down debt by $20,000,000 in August.

Net Profit after Tax and before impairment increased 81.9% to $15,176,000 up from $8,345,000 for the previous year.

We decided to take a non-cash impairment of $24,296,000 against the carrying value of the wholesale segment's intangible assets, principally goodwill from the Cassons acquisition. There is no impact on the company's debt facilities or compliance with our banking covenants as an outcome of this impairment.

This non-cash impairment impacted our profit result resulting in a net loss after tax of $9,120,000.

Operationally, the company continued to outperform the market with overall motorcycle sales, including both new and used motorcycles, increasing 13.8% to 21,095 units for the year ended 30 June 2020, up from 18,536 units achieved in the previous year.

New motorcycle sales increased 16.3% to 11,013 units (2019: 9,468 units), compared with the national market increase in new motorcycle sales of approximately 11.1%. Like for like new motorcycle sales increased 7.5%.

The company grew its market share by securing approximately 11.1% of national new bike sales during the financial year, compared with 10.6% in the prior year.

Used motorcycles sales increased 11.2% to 10,082 units (2019: 9,068 units) with sales improving across all brands.

Retail accessories and parts revenue increased 4.1% and servicing and repair revenue increased 5.9%. Finance, insurance and mechanical protection plan income increased 5.8%.

Cassons maintained profitability despite the challenging market and while there was pressure on margins, this business' performance improved in the second half with sales up 7.4% for the year. While good progress was made in reducing operating expenses and excess accessory stock throughout the year, Directors decided to book a non cash stock obsolescence charge of $591,000 against excess inventory.

There is no doubt the company's strategy for the past three years of growth through acquisitions has diversified our revenue streams and strengthened the resilience of the company, which has been a crucial factor in enabling it to withstand the current uncertain trading conditions.

The company's solid performance in this year's challenging environment is an outcome of the management team's agile response to these uncertain market conditions combined with a disciplined focus on improving operational productivity and lowering the company's cost structure and driving sales performance across the network.

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

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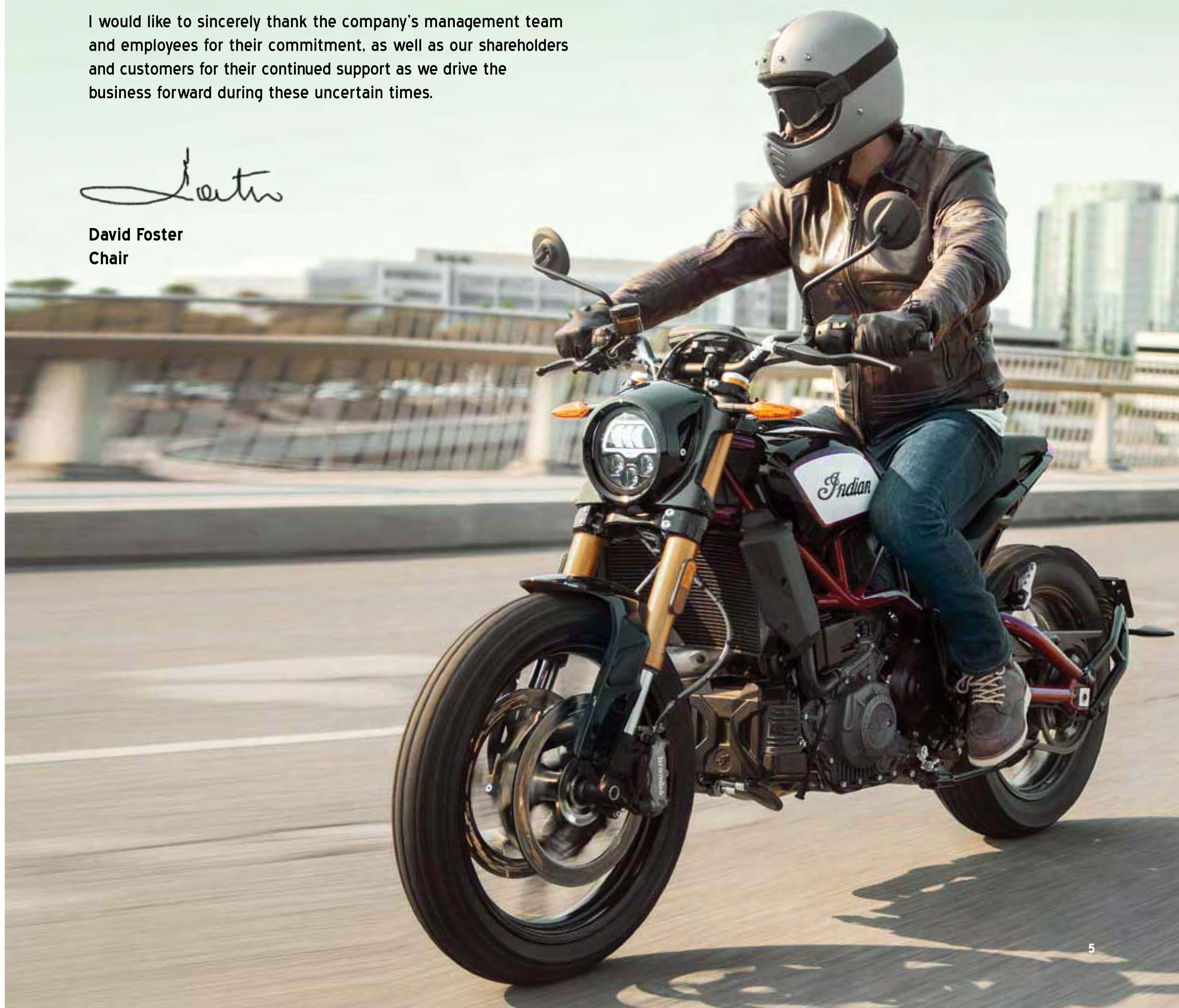
Due to the improved trading conditions, your Directors have decided to declare a special dividend of 5 cents per share.

The company's focus for this forthcoming year will be to continue to improve the productivity of its dealerships, drive new bike sales with additional brands, add additional suppliers to the wholesale distribution business, and continue to improve its online sales presence.

Your Directors are cautiously optimistic about the forthcoming year due to the renewed interest in motorcycles as a great leisure product however the current heightened sales demand momentum is expected to temper particularly if there are future shutdowns driven by the COVID-19 pandemic.

I would like to sincerely thank the company's management team and employees for their commitment, as well as our shareholders and customers for their continued support as we drive the business forward during these uncertain times.

David Foster
Chair



Managing Director's Report

David Ahmet

MANAGING DIRECTOR

Without doubt financial year 2020 has been a most challenging year. With motorcycle sales falling for most of the year we went into the COVID-19 pandemic with considerable concern. I am pleased to confirm that we were able to expand the network, reduce costs extensively across the group, and significantly grow our underlying EBITDA and profit after tax for the year. Importantly, we were able to improve our net debt position considerably and finished the year with $39,494,000 in cash, up from $9,175,000 the previous year.

These results have come from a tremendous effort by our management team and staff, and I must say that I couldn't be prouder of their achievements during these trying times.

In late March early April, we saw a dramatic slow down in sales. Virtually overnight our sales reduced by 50%. We took immediate and significant action to protect the business from the sudden change in conditions. These actions not only helped to limit the immediate impact to profitability, but also to set us up to benefit from the upturn in sales that we saw in May and June.

Aggressive cost savings, both before and during the COVID-19 crisis, combined with aggressive marketing and JobKeeper assistance, all helped to achieve an exceptional result, given the challenging circumstances.

Despite the immediate challenges we continued to expand the network by adding six new Indian dealerships to our existing sites, and building and relocating a new Harley Davidson dealership in Melbourne, in the second half. Two new dealerships were added to the network in the first half of the year, Northside Harley Davidson in Melbourne, and Canberra Motorcycle Centre. Both additions performed well and have exceeded our expectations so far.

We have continued to increase our offering in the recreational, leisure and agricultural markets, by adding Polaris Off Road vehicles to two of our Sydney MCAS locations, as well as Yamaha WaveRunners and Stihl power products to our Cairns dealership.

Despite the difficult trading conditions, we were able to grow new motorcycle sales by 16.3% to 11,013 units, which increased our market share to 11.1% of the total market, up from 10.6% the previous year.

Used motorcycle sales grew by 11.2% to 10,082 units. Both divisions saw an increase in retained margins and a considerable increase in gross profit.

External wholesale accessories sales through Cassons grew by 7.4% but profit was impacted by unfavourable exchange rates and an additional write down of excess stock. Retail accessories grew by 4.1% with gross down 2.7%.

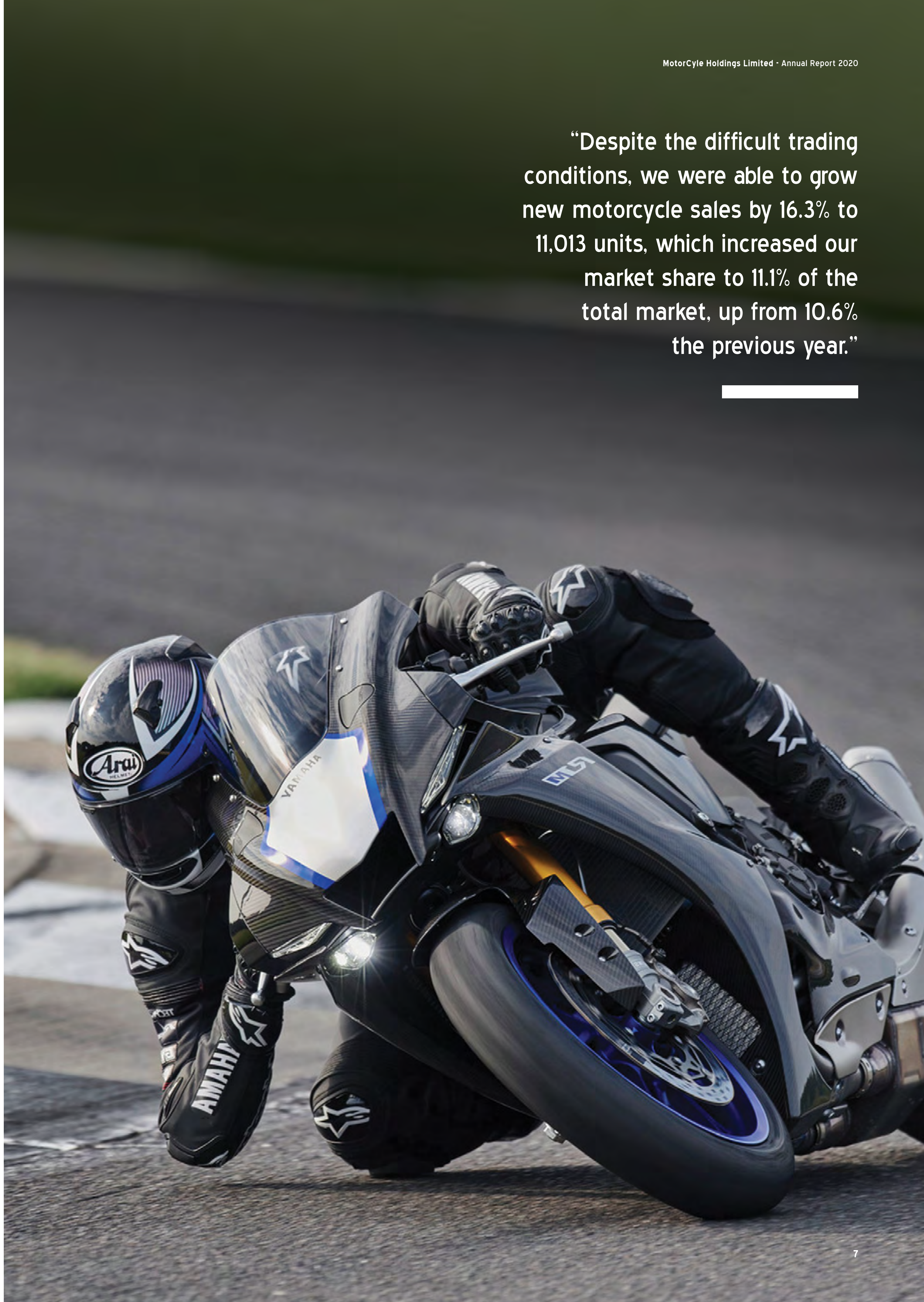
Service gross grew by 5.8% and retail finance and insurance commission by 5.1%. Our wholesale finance investment in the joint venture with Allied Credit has had to increase provisions for potential losses due to COVID-19 and is now expected to return a profit in FY21.

Over the course of the year we continued our program of refurbishing dealerships as required and invested in new showrooms to cater for new brands added to the group.

Despite the partial closure of six of our Victorian dealerships in recent weeks we are still cautiously optimistic of growing the business group. Our broad product offering and diversified geographical locations, combined with a renewed interest in leisure products and a lower cost base, gives us reason to believe that we can continue to grow the business. Significant sales in entry level motorcycles will help to create demand in future years as customers move up to larger models.

It is still of course a very changeable market, but we believe we have an agile management team that is capable of moving quickly to not only protect the business going forward, but also of taking advantage of the opportunities as they arise.

David Ahmet
Managing Director



"Despite the difficult trading conditions, we were able to grow new motorcycle sales by 16.3% to 11,013 units, which increased our market share to 11.1% of the total market, up from 10.6% the previous year."

Results and Operational Overview

1

Revenue increased 10.3% to $363,712,000 (2019: $329,887,000)

Underlying EBITDA increased 53.6% to $27,617,000 (2019: $17,985,000)

2

Special dividend of 5 cents per share declared amounting to $3,085,000

Cash position increased strongly to $39,494,000 (2019: $9,175,000)

3

Net Profit after Tax and before impairment increased 81.9% to $15,176,000 (2019: $8,345,000)

Non cash impairment of $24,296,000 recognised on goodwill from Cassons acquisition

4

Total motorcycle sales increased 13.8% to 21,095 units (2019: 18,536 units)

National market share for new bike sales grew to approx 11.1% from 10.6%

5

New motorcycle sales increased 16.3% to 11,013 units (2019: 9,468 units)

Used motorcycles sales increased 11.2% to 10,082 units (2019: 9,068 units)

6

Added 6 Indian, 2 Polaris, 2 Husqvarna, 4 Royal Enfield, Peugeot, and Benelli showrooms to MCA and TeamMoto stores

Now sell 16 top global motorcycle brands

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"Despite the immediate challenges we continued to expand the network by adding six new Indian dealerships to our existing sites..."

Directors' Report

The directors present their report together with the consolidated financial statements of MotorCycle Holdings Limited ('the Company') and its controlled entities ('the Group') for the year ended 30 June 2020 and the auditor's report thereon.

Directors

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

DAVID FOSTER — Chair, Independent Non-Executive Director

- Appointed 8 March 2016 (Non-Executive Director)
- Appointed 22 July 2016 (Interim Chair)
- Appointed 23 August 2016 (Chair)

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 Mortgage Insurance Australia Limited, G8 Education and Bendigo and Adelaide Bank Limited and was previously CEO of Suncorp Bank. David has a Master 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 (appointed January 2016, effective from February 2016)
- Genworth Mortgage Insurance Australia Limited (appointed May 2016)
- Bendigo and Adelaide Bank Limited (appointed September 2019)

Directorships of Listed Entities Over Last 3 Years

- Kina Securities Limited (appointed April 2015, ceased April 2018)
- Thorn Group Limited (appointed December 2014, ceased October 2019)

DAVID AHMET — Managing Director and Chief Executive Officer

- Appointed 30 June 2011

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 over 40 locations. David has over 30 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.

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

Current Directorships of other Listed Entities

- Nil

Directorships of Listed Entities over last 3 years

- Nil

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WARREN BEE — Independent Non-Executive Director

- Appointed 30 June 2011

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 Australian Institute of Company Directors.

Committee Membership

- Chair of the Nomination and Remuneration Committee
- Member of the Audit and Risk Committee

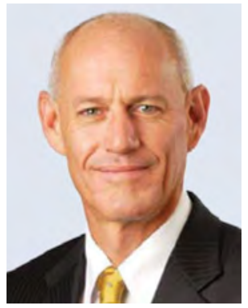
Current Directorships of other Listed Entities

- Nil

Directorships of Listed Entities over last 3 years

- Nil

RICK DENNIS — Independent Non-Executive Director



- Appointed 23 August 2016 with effect from 1 September 2016

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

- Chair of the Audit and Risk Committee
- Member of the Nomination and Remuneration Committee

Current Directorships of other Listed Entities

- Apiam Animal Health Limited (appointed November 2016)

Directorships of Listed Entities over last 3 years

- Omni Market Tide Limited (appointed March 2016, ceased August 2017)
- Shine Corporate Limited (appointed August 2017, ceased January 2019)

Directors' Report continued...

PETER HENLEY — **Independent Non-Executive Director**

- Appointed 1 March 2017

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 committee since 2006.

Peter is a Fellow of the Australian Institute of Management and a member of the Australian Institute for Company Directors.

Committee Membership	• Member of the Nomination and Remuneration Committee • Member of the Audit and Risk Committee • Chair of MotorCycle Finance Joint Venture Committee (appointed 1 April 2018)
Current Directorships of other Listed Entities	• Nil
Directorships of Listed Entities over last 3 years	• Nil

ROB CASSEN — **Non-Independent Non-Executive Director**

- Appointed 31 October 2017 (Executive Director)
- Appointed 21 December 2018 (Non-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.

Committee Membership	• Member Nomination and Remuneration Committee (appointed 21 December 2018) • Member Audit and Risk Committee (appointed 21 December 2018)
Current Directorships of other Listed Entities	• Nil
Directorships of Listed Entities over last 3 years	• Nil

Company Secretary

Nicole Spink (FCPA FGIA FCG(CS)) was appointed as Company Secretary on 28 May 2018. Nicole also holds the role of Group Financial Controller and has held CFO and other senior finance roles in both the retail and automotive industries. Nicole is a Fellow of CPA Australia, a Fellow of the Governance Institute of Australia, and a Fellow of the Chartered Governance Institute.

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	16	16	-	-	-	-
David Ahmet	16	16	-	-	-	-
Warren Bee	16	16	3	3	3	3
Rick Dennis	16	16	3	3	3	3
Peter Henley	16	16	3	3	3	3
Rob Cassen	16	16	3	3	3	3

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 the ownership and operation of motorcycle accessories businesses engaging in the wholesaling and retailing of motorcycle accessories.

Operating and financial review

MotorCycle Holdings Limited (ASX:MTO) performed strongly during the year in challenging conditions, driven by a solid increase in demand for new and used motorcycles, a lower cost structure, expanded product offering and improved dealer network. Performance in the last quarter exceeded expectations following a resurgence in demand for recreation and leisure products upon the easing of COVID-19 restrictions.

Key features of the company's financial result include sales revenue increasing 10.3% to $363,712,000 (2019: $329,887,000) with underlying EBITDA increasing 53.6% to $27,617,000 (2019: $17,985,000).

The company ended the year with a strong cash position of $39,494,000, up from $9,175,000 in 2019.

Net profit after tax and before impairment increased 81.9% to $15,176,000, up from $8,345,000 for the previous year.

A $24,296,000 non-cash impairment of goodwill which arose on the acquisition of Cassons has been recognised. This impairment charge had no impact on the company's debt facilities or compliance with banking covenants.

The company continued to outperform the market with total motorcycle sales increasing 13.8% to 21,095 units for the year ended 30 June 2020 (2019: 18,536 units).

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Directors' Report continued...

New motorcycle sales increased 16.3% to 11,013 units (2019: 9,468 units), compared with the national market increase in new motorcycle sales of approximately 11.1%. Like for like new motorcycle sales increased 7.5%.

The company grew its market share by securing approximately 11.1% of national new bike sales during the financial year, compared with 10.6% in the prior year with sales improving across all brands.

Used motorcycles sales increased 11.2% to 10,082 units (2019: 9,068 units).

Retail accessories and parts revenue increased 4.1% and servicing and repair revenue increased 5.9%. Finance, insurance and mechanical protection plan income increased 5.8%.

Cassons maintained profitability in a challenging market. Whilst there was pressure on gross profit margins, Cassons' performance improved in the second half with external sales up 7.4% for the year. Good progress was made in reducing excess inventory, however an additional one-off non-cash stock obsolescence charge of $591,000 has been recognised due to uncertainty caused by the COVID-19 pandemic.

Directors are cautiously optimistic about the forthcoming year however the recent increased sales momentum is expected to temper, particularly if there are further restrictions introduced as a result of the COVID-19 pandemic.

Dividends

Declared and Paid during the Financial Year

There were no dividends declared or paid during the Financial Year.

Declared after the end of the Financial Year

Directors have declared a special dividend of 5 cents per share amounting to $3,085,000 payable on 30 September 2020 with a record date of 9 September 2020.

There is no dividend re-investment plan in operation.

Events Subsequent to Reporting Date

There continues to be significant uncertainty relating to the future impacts of the pandemic, with a number of states still experiencing high case numbers. There has been no significant impact of the pandemic on the Group's operations subsequent to 30 June 2020 but management continue to closely monitor the potential impacts on the Group.

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.

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 significant breach of those environmental requirements as they apply to the Group during the period covered by this report.

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.

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.

Underlying EBITDA

Underlying EBITDA is a non-GAAP financial measure, and is calculated as earnings before non-bailment interest, taxation, depreciation, amortisation and acquisition expenses. A reconciliation between net profit after tax and Underlying EBITDA is presented as follows:

	30 Jun 2020 $'000	30 Jun 2019 $'000
Net profit after tax	(9,120)	**8,345**
Add:		
Bank interest expense	1,529	2,121
Income tax expense	6,702	3,702
Depreciation[1] and amortisation	3,787	3,790
Impairment	24,296	-
Acquisition costs	423	27
Underlying EBITDA	**27,617**	**17,985**

[1] Excludes depreciation on ROU assets

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 total remuneration of the auditor is disclosed in Note 30 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.

Details of the amounts paid to KPMG for non-audit services provided during the year are set out below:

	2020 $
Services other than audit and review of financial statements:	
Tax compliance services	72,000
Indirect tax compliance services	11,000
Total non-audit services	83,000

Directors' Report continued...

Lead 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 26 and forms part of this report.

Rounding Off

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 Instrument.

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.

Directors' Interests

The relevant interest of each Director in the shares and rights or options over such shares issued by the Company, and other related bodies corporate, as notified by the Directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001* at the date of this report is as follows:

Name	Ordinary Shares	Rights Over Ordinary Shares
David Foster	44,949	-
Warren Bee	38,958	-
Rick Dennis	-	-
Peter Henley	25,534	-
Rob Cassen	3,363,833	-
David Ahmet	11,288,994	446,323

Remuneration Report - Audited

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

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.

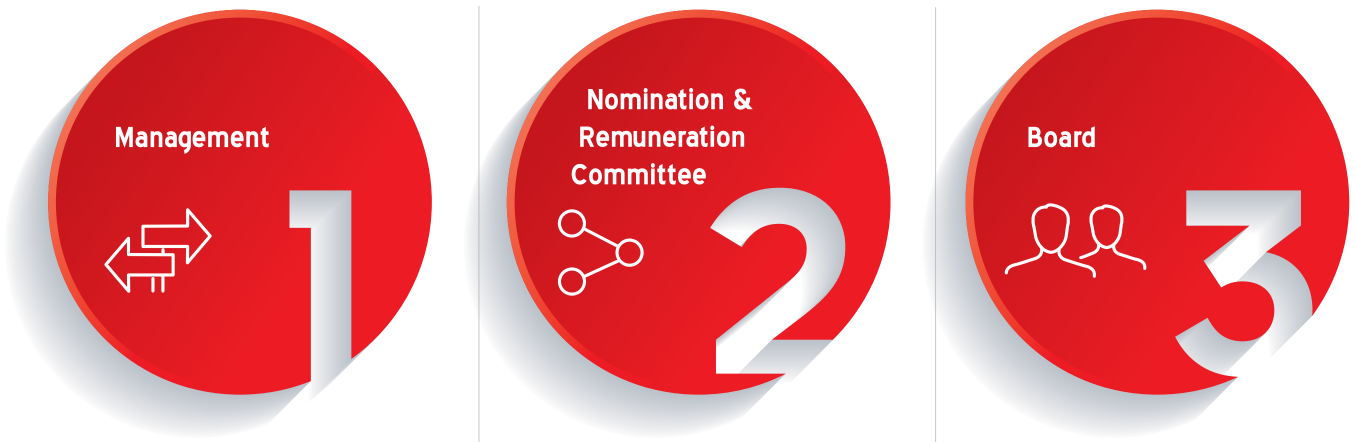
The table below summarises details of KMP of the Group for the financial year ended 30 June 2020, their roles and appointment/ cessation dates.

Key Management Personnel during the Reporting Period

Name	Role	Appointment Date
Non-Executive Directors		
David Foster	Chair, 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
Rob Cassen	Non-Independent, Non-Executive Director	21 December 2018
Executive Directors and Senior Executives		
David Ahmet	Managing Director	30 June 2011
Bob Donovan	Chief Financial Officer	20 May 2019

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:



Management provides information relevant to remuneration decisions and makes recommendations to the NRC.

NRC is delegated to review and make recommendations to the Board on remuneration policies for non-executive directors, senior executives and all employees including incentive arrangements and awards. The NRC can appoint remuneration consultants and other external advisors to provide independent advice.

Approves the overall remuneration framework and policy, ensuring it is fair, transparent and aligned with long term outcomes. Approves incentive arrangements and awards for Executive Directors and Senior Executives.

Approves remuneration of non-executive directors within the shareholder approved fee cap.

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Directors' Report continued...

Non-Executive Director Remuneration

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.

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

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 Chair	Audit & Risk Committee	Nomination & Remuneration Committee	MotorCycle Finance JV Committee	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	70,000	-	5,000	5,000	10,000	90,000
Rob Cassen	70,000	-	5,000	5,000	-	80,000
Total	**360,000**	**95,000**	**25,000**	**25,000**	**10,000**	**515,000**

Executive Director and Senior Executive Remuneration

Policy

The Board's policy for determining the nature and amount of remuneration for the Executive Director 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.

Remuneration and other terms of employment for Senior Executives 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 either three- or six-months' notice.

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 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.

Performance Linked Remuneration

Short Term Annual Cash Bonus

The Managing Director and Chief Financial Officer 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 compared to 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% to 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.

Key Management Personnel Performance-Linked Remuneration Payments

Employed at 30 June 2020	Position	Max Potential Bonus % of Salary	Actual Amount of Bonuses Included in FY20 Remuneration $	% Max Bonus
David Ahmet	Managing Director	50%	$nil	0
Bob Donovan	Chief Financial Officer	50%	$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.

Directors' Report continued...

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 2019 and ending 30 June 2022, compared to a peer group of 12 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	Autosports Group Limited
Bapcor Limited	Apollo Tourism & Leisure 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

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 2019 and ending 30 June 2022, 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 and Chief Financial Officer 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, forfeited and outstanding in the reporting period are set out in the following table.

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Description of Rights	Opening Balance of Rights	Numbers of Rights Granted in FY20	Fair Value per Right at Grant Date		Grant date	Performance period	Number of Rights Forfeited in FY20	Value of Rights Forfeited	% of Remuneration Granted as Rights During the Reporting Period	Closing Balance of Rights
			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	-	-	9%	86,905
FY19 LTIP	96,618	-	$0.20	$1.24	27 June 2019	1 July 2018 to 30 June 2021	-	-	6%	96,618
FY20 LTIP	-	262,800	$1.41	$1.65	26 June 2020	1 July 2019 to 30 June 2022	-	-	21%	262,800
Bob Donovan, Chief Financial Officer										
FY18 LTIP	13,758	-	$1.60	$3.01	24 April 2018	1 July 2017 to 30 June 2020	-	-	4%	13,758
FY19 LTIP	**15,294**	-	$0.20	$1.24	27 June 2019	1 July 2018 to 30 June 2021	-	-	2%	15,294
FY20 LTIP	-	41,600	$1.41	$1.65	26 June 2020	1 July 2019 to 30 June 2022	-	-	9%	41,600

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. An overview of the measures is set out above.

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

The table below summarises the Group's financial performance for FY2020 compared to prior periods and correlates it to the total KMP remuneration for the respective financial years.

Metric	2020	2019	2018	2017	2016
Statutory Net Profit/(Loss) After Tax ($'000)	**(9,120)**	8,345	8,539	9,280	5,571
Change in Share Price	**60.5%**	(65.5%)	(10.3%)	46.5%	7.6%
Earnings per Share	**(14.8) cents**	13.5 cents	15.6 cents	24.5 cents	18.7 cents
Total Dividends Paid ($)	-	4,010,940	6,240,124	2,846,250	-
KMP Remuneration ($)	**1,589,465**	2,371,480	1,984,461	2,098,125	1,512,949

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Directors' Report continued...

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				
Name & Role	**Year**	**Cash Salary & Fees $**	**Cash Bonus $**	**Non-Cash Benefit $**	**Total $**	**Superannuation Benefits $**	**Termination Benefits $**	**Long Service Leave $**	**Share Based Benefits $**	**Total $**	**Proportion of remuneration performance related %**
Current Non-Executive Directors											
David Foster, Chair, Non-Executive Director	2020	157,973	-	-	**157,973**	15,008	-	-	-	**172,980**	-
	2019	159,817	-	-	**159,817**	15,183	-	-	-	**175,000**	-
Warren Bee, Non-Executive Director	2020	76,730	-	-	**76,730**	7,289	-	-	-	**84,019**	-
	2019	77,625	-	-	**77,625**	7,375	-	-	-	**85,000**	-
Rick Dennis, Non-Executive Director	2020	76,730	-	-	**76,730**	7,289	-	-	-	**84,019**	-
	2019	77,625	-	-	**77,625**	7,375	-	-	-	**85,000**	-
Peter Henley, Non-Executive Director	2020	63,953	-	-	**63,953**	25,008	-	-	-	**88,961**	-
	2019	69,240	-	-	**69,240**	21,710	-	-	-	**90,950**	-
Rob Cassen[1], Non-Executive Director	2020	72,217	-	-	**72,217**	6,861	-	-	-	**79,078**	-
	2019	36,530	-	-	**36,530**	3,470	-	-	-	**40,000**	-
Total Non-Executive Director Remuneration	2020	447,602	-	-	**447,602**	61,455	-	-	-	**509,057**	-
	2019	420,837	-	-	**420,837**	55,113	-	-	-	**475,950**	-
Former Executive Directors and Senior Executives											
Rob Cassen[1], Non-Executive Director	2020	-	-	-	**-**	-	-	-	-	**-**	-
	2019	109,028	-	-	**109,028**	14,112	-	-	-	**123,140**	-
Chris Chenoweth[2], General Manager	2020	-	-	-	**-**	-	-	-	-	**-**	-
	2019	92,391	40,718	-	**133,109**	11,870	-	-	-	**144,979**	22%
Eddie Macdonald[3], Chief Financial Officer	2020	-	-	-	**-**	-	-	-	-	**-**	-
	2019	325,181	-	-	**325,181**	23,077	89563	-	-	**437,821**	-
Adrian Murphy[4], Chief Operating Officer	2020	-	-	-	**-**	-	-	-	-	**-**	-
	2019	196847	-	-	**196847**	13462	-	-	-	**210309**	-
Total Non-Executive Directors Remuneration	2020	-	-	-	**-**	-	-	-	-	**-**	-
	2019	723,447	40,718	-	**764,165**	62,521	89563	-	-	**916,249**	-
Current Executive Directors and Senior Executives											
David Ahmet, Managing Director	2020	598,747	-	-	**598,747**	20,349	-	9,979	168,342	**797,417**	21%
	2019	636,951	-	-	**636,951**	20,048	-	10,616	41,188	**708,803**	6%
Bob Donovan[5], Chief Financial Officer	2020	230,594	-	-	**230,594**	21,906	-	3,843	26,648	**282,992**	9%
	2019	237,443	-	-	**237,443**	22,557	-	3,957	6,521	**270,478**	2%
Total Current Executive Director and Senior Executive Remuneration	2020	829,341	-	-	**829,341**	42,255	-	13,822	194,990	**1,080,408**	-
	2019	874,394	-	-	**874,394**	42,605	-	14,573	47,709	**979,281**	-
Total KMP Remuneration	2020	1,276,943	-	-	**1,276,943**	103,710	-	13,822	194,990	**1,589,465**	-
	2019	2,018,678	40,718	-	**2,059,396**	160,239	89,563	14,573	47,709	**2,371,480**	-

[1] Appointed as Executive Director 31 October 2017. Appointed as Non-Executive Director 21 December 2018.

[2] Appointed 15 September 2008. Resigned 31 December 2018.

[3] Appointed 28 May 2018. Resigned 20 May 2019.

[4] Appointed 6 August 2018. Resigned 14 February 2019.

[5] Appointed General Manager – Business Development and Integration 28 May 2018. Appointed Chief Financial Officer 20 May 2019.

Directors' Report continued...

Other Information

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	Notice Period
Non-Executive Directors		
David Ahmet	Managing Director	6 months
Senior Executives		
Bob Donovan	Chief Financial Officer	3 months

Other Transactions with Key Management Personnel

Subsidiaries of the Group have entered into property leases for business premises with David Ahmet and Rob Cassen, including associated entities. The leases have been entered into on an arm's length basis and have terms and conditions consistent with leases in the respective areas. A summary of the leases is set out in Note 31 to the financial statements.

Shareholdings of Key Management Personnel

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

	Shareholdings of KMP					
Name	Opening Balance 1 July 2019	Shares acquired during the year	Shares disposed of during the year	Received on vesting of rights to deferred shares	Other changes	Closing Balance 30 June 2020
Non-Executive Directors						
David Foster	44,949	-	-	-	-	**44,949**
Warren Bee	38,958	-	-	-	-	**38,958**
Rick Dennis	-	-	-	-	-	**-**
Peter Henley	14,034	11,500	-	-	-	**25,534**
Rob Cassen	3,181,819	182,014	-	-	-	**3,363,833**
Executive Directors and Senior Executives						
David Ahmet	11,183,907	105,087	-	-	-	**11,288,994**
Bob Donovan	598,052	-	-	-	-	**598,052**

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 2020:

- 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*.

Signed in accordance with a resolution of the directors:

David Foster
Chair
27 August 2020

David Ahmet
Managing Director
27 August 2020

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 2020 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
27 August 2020

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FINANCIAL STATEMENTS

Financial Statements (continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2020

	Note	30 Jun 2020 $'000	30 Jun 2019 $'000
Sales revenue	6	**348,588**	315,054
Other income[1]	6	**21,101**	14,833
Cost of sales		**261,616**	233,485
Employee benefits expense	7	**52,828**	51,661
Finance costs[2]	8	**3,880**	2,890
Depreciation and amortisation expense		**13,188**	3,790
Impairment expense	15	**24,296**	-
Occupancy costs		**2,509**	12,339
Other expenses	7	**13,790**	13,675
Profit/(loss) before tax		**(2,418)**	12,047
Income tax expense	9	**6,702**	3,702
Profit/(loss) for the period		**(9,120)**	8,345
Other comprehensive income		**(181)**	(290)
Total comprehensive income for the year attributable to owners of the company		**(9,301)**	8,055

	Note	Cents	Cents
Earnings per share	10		
Basic earnings per share		**(14.8)**	13.5
Diluted earnings per share		**(14.8)**	13.5

[1] Other income includes JobKeeper payments, see Note 6.

[2] The Group has presented interest expense on lease liabilities separately from the depreciation charge for right-of-use assets. Interest expense on lease liabilities is a component of finance costs, which is presented in the statement of profit or loss and other comprehensive income. See Notes 8 and 29

The Group has initially applied AASB 16 as at 1 July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 3.

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

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Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30 Jun 2020 $'000	30 Jun 2019 $'000
Current assets			
Cash and cash equivalents	11	**39,494**	9,175
Trade and other receivables	12	**7,592**	8,179
Inventories	13	**74,425**	84,396
Current tax assets		**-**	2,095
Other assets		**-**	12
Total current assets		**121,511**	103,857
Non-current assets			
Right of use assets	29	**28,795**	-
Property, plant and equipment	14	**11,464**	11,546
Deferred tax assets	9	**488**	653
Goodwill and other intangible assets	15	**94,571**	119,684
Interest in equity accounted investees	16	**3,164**	3,539
Other assets		**146**	117
Total non-current assets		**138,628**	135,539
Total assets		**260,139**	239,396
Current liabilities			
Trade and other payables	17	**12,652**	12,457
Short term borrowings	18	**30,602**	30,550
Lease liabilities		**11,100**	-
Current tax liabilities	9	**2,057**	-
Provisions	19	**6,459**	5,692
Contract liabilities		**2,444**	2,988
Total current liabilities		**65,314**	51,687
Non-current liabilities			
Borrowings	20	**44,623**	46,815
Lease liabilities		**20,227**	-
Provisions	19	**582**	1,448
Contract liabilities		**4,804**	4,209
Total non-current liabilities		**70,236**	52,472
Total liabilities		**135,550**	104,159
Net assets		**124,589**	135,237
Equity			
Contributed equity	21	**120,081**	120,081
Share-based payment reserve		**254**	177
Retained earnings		**4,254**	14,979
Total equity		**124,589**	135,237

The Group has initially applied AASB 16 as at 1 July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 29.

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

Financial Statements (continued)

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

	Issued Capital $'000	Retained Earnings $'000	Share-Based Payment Reserve $'000	Total Equity $'000
Balance at 1 July 2018	**120,081**	**10,935**	**88**	**131,104**
Comprehensive income for the period				
Profit for the period	-	8,345	-	8,345
Other comprehensive income	-	(290)	-	(290)
Total comprehensive income for the period	**-**	**8,055**	**-**	**8,055**
Transactions with owners in their capacity as owners				
Dividends paid	-	(4,011)	-	(4,011)
Equity settled share-based payment	-	-	89	89
Total transactions with owners in their capacity as owners	**-**	**(4,011)**	**89**	**(3,922)**
Balance at 30 June 2019	**120,081**	**14,979**	**177**	**135,237**
Adjustment on initial application of AASB 16 (net of tax)	-	(1,424)	-	(1,424)
Restated Balance at 1 July 2019	**120,081**	**13,555**	**177**	**133,813**
Comprehensive income for the period				
Loss for the period	-	(9,120)	-	(9,120)
Other comprehensive income	-	(181)	-	(181)
Total comprehensive income for the period	**-**	**(9,301)**	**-**	**(9,301)**
Transactions with owners in their capacity as owners				
Dividends paid	-	-	-	-
Equity settled share-based payment	-	-	77	77
Total transactions with owners in their capacity as owners	**-**	**-**	**77**	**77**
Balance at 30 June 2020	**120,081**	**4,254**	**254**	**124,589**

The Group has initially applied AASB 16 as at 1 July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 29.

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

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Consolidated Statement of Cash Flows

For the Year Ended 30 June 2020

	Note	30 Jun 2020 $'000	30 Jun 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**406,606**	362,228
Payments to suppliers and employees (inclusive of GST)		**(365,812)**	(335,460)
Interest and other costs of finance paid		**(3,607)**	(2,890)
Income taxes paid		**(1,693)**	(4,888)
Interest received		**9**	11
Net cash (used)/provided by operating activities	32	**35,503**	19,001
Cash flows from investing activities			
Payment for acquisition of businesses (net of cash acquired)		**(2,581)**	-
Payments for investments in equity accounted investees		**-**	(2,750)
Payments for property, plant and equipment		**(1,213)**	(2,185)
Proceeds from sale of property, plant and equipment		**66**	126
Net cash (used)/provided by investing activities		**(3,728)**	(4,809)
Cash flows from financing activities			
Proceeds from/(repayment of) borrowings		**(1,167)**	(3,475)
Principal portion of lease liability repayments		**(289)**	-
Dividend paid	21	**-**	(4,011)
Net cash (used)/provided by financing activities		**(1,456)**	(7,486)
Net increase/(decrease) in cash and cash equivalents		**30,319**	6,706
Cash and cash equivalents at the beginning of the period		**9,175**	2,469
Cash and cash equivalents at the end of the period	11	**39,494**	9,175

The Group has initially applied AASB 16 as at 1 July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 29.

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

MotorCyle Holdings Limited • Annual Report 2020

Financial Statements (continued)

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 2020 comprise the Company and its subsidiaries (together referred to as the "Group") and were authorised for issue by the Board of Directors on 27 August 2020.

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 the ownership and operation of motorcycle accessories businesses engaging in the wholesaling and retailing of motorcycle accessories.

2. Significant Accounting Policies

A. General Information

Statement of Compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated 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/Director's 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.

This is the first set of the Group's annual financial statements in which AASB 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

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 Group's 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 other comprehensive income 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 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 15).

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

Sales Revenue

Revenue from the sales of new and used motorcycles, accessories and parts is recognised when the performance obligation has been satisfied, which is considered at the point in time when the motorcycle, parts or accessories are invoiced and physically shipped to or collected by the customer.

Under the Group's standard contract terms, the customer has a right to return the product within a specified period and the Group is obliged to refund the purchase price. Under AASB 15, the Group reduces revenue by the amount of expected returns and records it as 'trade and other payables'. The Group estimates the amount of returns based on the historical data for motorcycles, parts and accessories.

Service Revenue

Service work on customers' motorcycles is carried out under instructions from the customer. Service revenue is recognised over time based on when the performance obligation is satisfied, which is when the requested services work is rendered.

Revenue arising from the sale of parts fitted to customers' motorcycles during a service is recognised at a point in time upon satisfaction of the performance obligation, being the completion of the service.

Mechanical Protection Plan Revenue

Revenue from the sale of mechanical protection plans (MPP) is recognised over time based on when the performance obligation is satisfied, which is on a straight-line basis over the period of the MPP. The premium collected from the sale of MPP is initially recognised as a contract liability. Costs related to satisfying approved customer claims under the MPP contracts are recognised in profit or loss and expensed as incurred.

Interest Revenue

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

Finance and Insurance Commission Revenue

The Group acts as an agent in the sale of motorcycle finance and insurance products. Commission revenue is recognised at a point in time when the performance obligation is satisfied, which is upon delivery of the associated motorcycle and the transfer of control to the customer.

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.

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Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

2. Significant Accounting Policies (continued)

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. Impairment of Non-financial assets

Assets that have an indefinite useful life, including Goodwill is tested annually for impairment.

At each reporting date, the Group reviews the carrying amount of all other non-financial assets to determine whether there is any indication of impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates independent cash inflows (known as cash-generating units or CGUs). Goodwill arising from a business combination is allocated to CGUs that are expected to benefit from the synergies of the transaction.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount.

G. 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.

H. Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. The Group applies the simplified approach permitted by AASB 9 Financial Instruments, which requires expected credit losses to be recognised from initial recognition of the receivables. The expected credit losses are estimated using a trade receivables aging matrix, based on the Group's historical credit loss experience.

I. Inventories

Inventory on hand has been recognised 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.

New Motorcycles and Related Bailment Finance

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.

J. 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 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. Fair values are categorised into different levels in fair a value hierarchy based on the inputs used in the valuation techniques as follows:

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

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.

K. 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

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 profit or loss.

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Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

2. Significant Accounting Policies (continued)

L. Goodwill and Other Intangible Assets

Goodwill

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 15).

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 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 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.

M. 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.

N. 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.

O. 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.

P. 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.

Q. 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.

R. 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.

S. 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.

T. Government Grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants are recognised at fair value when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Fair value is the amount for which an asset could be exchanged between a buyer in an arm's length transaction.

Government grants are presented in the consolidated statement of profit or loss, under Other Income. Grants in recognition of specific expenses are recognised in the consolidated statement of profit or loss in the same period as the relevant expense.

3. Changes in Significant Accounting Policies

The Group has initially adopted AASB 16 *Leases* from 1 July 2019. AASB 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a Lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease or lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

3. Changes in Significant Accounting Policies (continued)

As a Lessee

The Group leases assets including properties and IT equipment. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group recognises right-of-use assts and lease liabilities for most leases – i.e. these leases are on balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-values assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line bases over the lease term.

The Group presents assets that do not meet the definition of investment property as 'right-of-use assets.' The carrying amounts of right-of-use assets are as below.

	Right of Use Assets $'000
Balance at 1 July 2019	33,125
Balance at 20 June 2020	**28,795**

The Group presents lease liabilities separately to loans and borrowings in the statement of financial position.

Significant Accounting Policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjustments for subsequent measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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

Transition

Previously, the Group classified property leases as operating leases under AASB 117. These include retail showroom and warehouse facilities. The leases typically run for a period of five years. All leases include options to renew the lease for additional periods of five years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on Financial Statements

Impacts on Transition

On transition to AASB 16, the Group recognised additional right-of-use assets, and additional lease liability, recognising the difference in retained earnings. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 3.24%. The impact on transition is summarised below.

	1 July 2019 $'000
Right-of-use-assets	33,125
Deferred tax asset	610
Lease liabilities	35,161
Retained earnings	(1,426)

	1 July 2019 $'000
Operating lease commitments as at 30 June 2019[1]	29,745
Adjustments as a result of a different treatment of extension and termination options	5,416
Lease Liabilities Recognised as at 1 July 2019	**35,161**

[1] Discounted using the incremental borrowing rate at the date of the initial application

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

4. 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:

Recoverable Amount of Goodwill and Other Intangible Assets

Goodwill with a carrying value of $77,499,000 (2019: $100,543,000) is tested annually for impairment, based on estimates made by directors. Further information on the intangibles impairment test can be found in Note 15. For the purpose of impairment testing conducted for the current year ended 30 June 2020 the recoverable amount has been based on fair value less cost of disposal.

Carrying Amount of Inventories

In determining the amount of write-downs of inventories, management has made judgements based on the expected net realisable value. This requires certain judgements and assumptions to be made, including but not limited to historical loss experience, inventory aging and current knowledge of the products.

COVID-19 Global Pandemic

Judgement has been exercised in evaluating the impact of COVID-19 on the financial statements. In particular, we considered the impact on future cash flows included within our fair value less costs of disposal calculations used in impairment assessments and whether or not there are material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Right of use assets and associated lease liabilities

The Group has initially adopted AASB 16 Leases from 1 July 2019. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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5. 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. The Group operates in two operating and reporting segments being Motorcycle Retailing and Motorcycle Accessories Wholesaling.

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 mechanical protection plan 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.

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Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

5. Operating Segment Information (continued)

	Motorcycle Retailing	Motorcycle Accessories Wholesaling	Eliminations	Consolidated	Motorcycle Retailing	Motorcycle Accessories Wholesaling	Eliminations	Consolidated
	30 Jun 2020 $'000	30 Jun 2020 $'000	30 Jun 2020 $'000	30 Jun 2020 $'000	30 Jun 2019 $'000	30 Jun 2019 $'000	30 Jun 2019 $'000	30 Jun 2019 $'000
Sales to external customers and other income	334,847	34,842	-	369,689	297,137	32,750	-	329,887
Inter-segment sales	-	18,975	(18,975)	-	-	18,312	(18,312)	-
Total revenue and other income	**334,847**	**53,817**	**(18,975)**	**369,689**	**297,137**	**51,062**	**(18,312)**	**329,887**
Segment result								
Operating profit before interest and impairment	22,312	5,868	-	28,180	7,859	8,595	-	16,454
Impairment loss	-	(24,296)	-	(24,296)	-	-	-	-
External interest expense allocation	(2,391)	(1,489)	-	(3,880)	(1,299)	(1,591)	-	(2,890)
Operating contribution	**19,921**	**(19,917)**	**-**	**4**	**6,560**	**7,004**	**-**	**13,564**
Share of net profit of equity accounted investees	(195)	-	-	(195)	(77)	-	-	(77)
Business acquisition costs	(423)	-	-	(423)	-	-	-	-
Segment profit	**19,303**	**(19,917)**	**-**	**(614)**	**6,483**	**7,004**	**-**	**13,487**
Unallocated corporate expenses				(1,804)				(1,440)
Profit before tax				**(2,418)**				**12,047**
Income tax expense				(6,702)				(3,702)
Net profit after tax				**(9,120)**				**8,345**
Depreciation and amortisation	9,408	3,780	-	13,188	1,477	2,313	-	3,790
Write down of inventories to net realisable value	1,670	308	-	1,978	391	(265)	-	126
Assets								
Segment assets	183,774	76,365	-	260,139	133,792	105,604	-	239,396
Liabilities								
Segment liabilities	108,024	27,526	-	135,550	68,290	35,869	-	104,159
Net Assets	**75,750**	**48,839**	**-**	**124,589**	**65,502**	**69,735**	**-**	**135,237**
Goodwill	50,243	27,256	-	77,499	48,993	51,552	-	100,545
Acquisition of non-current assets	1,097	117	-	1,214	1,527	657	-	2,184

Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

6. Revenue

Disaggregation of Revenue

	Motorcycle Retailing 30 Jun 2020 $'000	Motorcycle Accessories Wholesaling 30 Jun 2020 $'000	Consolidated 30 Jun 2020 $'000	Motorcycle Retailing 30 Jun 2019 $'000	Motorcycle Accessories Wholesaling 30 Jun 2019 $'000	Consolidated 30 Jun 2019 $'000
New motorcycles	129,425	-	129,425	111,187	-	111,187
Used motorcycles	95,243	-	95,243	85,980	-	85,980
Parts and accessories	75,457	34,842	110,299	72,463	32,451	104,914
Service	13,184	-	13,184	12,453	-	12,453
Other	437	-	437	520	-	520
	313,746	34,842	348,588	282,603	32,451	315,054
At a point in time	311,386	34,842	346,228	281,480	32,451	313,931
Over time	2,360	-	2,360	1,123	-	1,123
	313,746	34,842	348,588	282,603	32,451	315,054
Other Income						
Finance and insurance Income	13,295	-	13,295	12,569	-	12,569
Government grants - JobKeeper payment	5,977	-	5,977	-	-	-
Interest income	9	-	9	5	6	11
Income from equity accounted investees	(195)	-	(195)	(77)	-	(77)
Other income	2,015	-	2,015	2,038	292	2,330
	21,101	-	21,101	14,535	298	14,833

Contract Balances

The following table provides information about receivables and contract liabilities from contracts with customers

	30 Jun 2020 $'000	30 Jun 2019 $'000
Receivables, included in trade and other receivables	7,592	8,179
Contract liabilities	7,248	7,197
Revenue recognised from performance obligations satisfied or partially satisfied in previous periods or partially satisfied in previous periods	2,986	2,701

Transaction Price Allocated to Remaining Performance Obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially satisfied) at 30 June 2020.

Financial Year Ending	30 June 2021 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2024 $'000	30 June 2025 $'000	30 June 2026 or later $'000
Mechanical protection plans	3,264	2,203	1,209	442	120	8
	3,264	2,203	1,209	442	120	8

7. Other Expenses

	30 Jun 2020 $'000	30 Jun 2019 $'000
Other expenses		
Advertising	2,404	2,416
Bank charges	992	1,060
Computers and software	955	928
Freight and cartage	1,253	1,270
Insurance	1,169	968
Motor vehicle expenses	1,588	1,753
Professional fees	1,161	829
Other expenses	4,268	4,451
	13,790	13,675
Employee benefits expense		
Salaries and wages	41,573	40,131
Superannuation contributions	4,882	4,673
Equity settled share-based payments	77	89
Other employee benefits expense	6,296	6,768
	52,828	51,661

8. Finance Costs

	30 Jun 2020 $'000	30 Jun 2019 $'000
Vehicle bailment	835	769
Bank interest expense	1,529	2,121
Interest attributable to leases	1,243	-
Foreign currency loss/(gain)	273	
	3,880	2,890

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

9. Income Taxes

	30 Jun 2020 $'000	30 Jun 2019 $'000
Income Tax Expense		
Current income tax expense	5,845	3,876
Deferred income tax expense/(benefit)	857	(174)
	6,702	3,702
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(2,418)	12,047
Tax at the Australian tax rate of 30% (2018: 30%)	(725)	3,614
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenses	7,397	88
Derecognition of prior year deferred tax asset	30	
Income tax expense	6,702	3,702
Deferred tax		
Deferred tax assets	15,188	6,544
Deferred tax liabilities	(14,700)	(5,891)
	488	653
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Accrued income	(717)	-
Right of use assets	(8,028)	-
Property, plant and equipment	378	331
Inventory valuation	(223)	(150)
Provisions		
- Doubtful debts	62	63
- Employee benefits	2,170	1,890
- Warranties	2,174	2,159
- Bonuses	177	
Business combination costs	397	791
Lease liabilities	9,398	-
Other	105	369
Tax loses	408	941
	6,301	6,394

	30 Jun 2020 $'000	30 Jun 2019 $'000
Amounts recognised directly in equity		
Other	(610)	-
	(610)	-
Amounts recognised directly in goodwill		
Acquired employee entitlements / liabilities	(82)	-
Indefinite life intangibles	(5,121)	(5,741)
	(5,203)	(5,741)
Net deferred tax assets	488	653

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	653	(817)
Charged/(credited) to profit and loss	(93)	174
Deferred tax recognised directly in equity	(610)	-
Deferred tax recognised directly in goodwill	538	1,296
Closing balance at 30 June	488	653

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.

10. Earnings per Share

	30 Jun 2020 Cents	30 Jun 2019 Cents
Basic earnings per share		
Earnings attributable to the ordinary equity holders of the Company	(14.8)	13.5
Diluted earnings per share		
Earnings attributable to the ordinary equity holders of the Company	(14.8)	13.5

Reconciliation of earnings used in calculating earnings per share	$'000	$'000
Basic earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(9,120)	8,345
Diluted earnings per share		
(Loss)/Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(9,120)	8,345
Weighted average number of ordinary shares outstanding during the year	61,707	61,707
Adjustments for calculation of diluted earnings per share – performance rights and options	-	103
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	61,707	61,810

Financial Statements (continued)

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11. Cash and Cash Equivalents

	30 Jun 2020 $'000	30 Jun 2019 $'000
Cash at bank and on hand	38,687	9,083
Short term deposits	807	92
	39,494	9,175

12. Trade and Other Receivables

	30 Jun 2020 $'000	30 Jun 2019 $'000
Trade and other receivables	7,798	8,387
Provision for doubtful receivables	(206)	(208)
	7,592	8,179

13. Inventories

	30 Jun 2020 $'000	30 Jun 2019 $'000
New and demonstrator motorcycles (at cost)	30,375	30,985
Less: write-down to net realisable value	(285)	(301)
New and demonstrator inventory	30,090	30,684
Used motorcycles (at cost)	6,701	12,268
Less: write-down to net realisable value	(118)	(204)
Used inventory	6,583	12,064
Parts, accessories and other consumables (at cost)	44,469	46,285
Less: write-down to net realisable value	(6,717)	(4,637)
Parts, accessories and other consumable inventory	37,752	41,648
Total inventories	74,425	84,396

14. Property, Plant and Equipment

	30 Jun 2020 $'000	30 Jun 2019 $'000
Leasehold improvements		
Gross value	9,939	9,295
Accumulated depreciation	(3,172)	(2,663)
	6,767	6,632
Motor vehicles		
Gross value	2,632	2,398
Accumulated depreciation	(1,595)	(1,363)
	1,037	1,035
Plant and equipment		
Gross value	7,402	6,667
Accumulated depreciation	(5,191)	(4,531)
	2,211	2,136
Furniture, fixtures and fittings		
Gross value	3,431	3,487
Accumulated depreciation	(2,178)	(2,000)
	1,253	1,487
Other fixed assets		
Gross value	1,344	1,334
Accumulated depreciation	(1,148)	(1,078)
	196	256
Total property, plant and equipment	11,464	11,546

A 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:

30 Jun 2020	Leasehold improvements $'000	Motor Vehicles $'000	Plant and Equipment $'000	Furniture, Fixtures & Fittings $'000	Other Fixed Assets $'000	Total $'000
Carrying amount at the start of the period	6,632	1,035	2,136	1,487	256	11,546
Additions	547	120	403	132	11	1,213
Acquired from business combinations	99	207	119	65	2	492
Disposals/transfers	-	(32)	145	(179)	-	(66)
Depreciation expense	(509)	(295)	(592)	(254)	(71)	(1,721)
Carrying amount at end of period	6,769	1,035	2,211	1,251	198	11,464

30 Jun 2019	Leasehold improvements $'000	Motor Vehicles $'000	Plant and Equipment $'000	Furniture, Fixtures & Fittings $'000	Other Fixed Assets $'000	Total $'000
Carrying amount at the start of the period	6,532	758	1,827	1,779	315	11,211
Additions	644	659	743	100	39	2,185
Acquired from business combinations	-	-	-	-	-	-
Disposals/transfers	(131)	(62)	88	(20)	(1)	(126)
Depreciation expense	(413)	(320)	(522)	(372)	(97)	(1,724)
Carrying amount at end of period	6,632	1,035	2,136	1,487	256	11,546

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

15. Intangible Assets and Goodwill

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

30 Jun 2020	Goodwill $'000	Trademarks $'000	Customer contracts and relationships $'000	Other intangibles $'000	Total $'000
Cost					
Balance at beginning of period	100,545	5,603	15,000	2,000	123,148
Acquired through business combinations	1,250	-	-	-	1,250
Balance at end of period	**101,795**	**5,603**	**15,000**	**2,000**	**124,398**
Accumulated amortisation & impairment					
Balance at beginning of period	-	-	(2,797)	(667)	(3,464)
Amortisation expense	-	-	(1,667)	(400)	(2,067)
Impairment charge	(24,296)	-	-	-	(24,296)
Balance at end of period	**(24,296)**	-	**(4,464)**	**(1,067)**	**(29,827)**
Carrying amounts					
Balance at beginning of period	100,545	5,603	12,203	1,333	119,684
Balance at end of period	**77,499**	**5,603**	**10,536**	**933**	**94,571**

30 Jun 2019	Goodwill $'000	Trademarks $'000	Customer contracts and relationships $'000	Other intangibles $'000	Total $'000
Cost					
Balance at beginning of period	103,290	5,603	15,000	2,000	125,893
Acquired through business combinations	(2,745)	-	-	-	(2,745)
Balance at end of period	**100,545**	**5,603**	**15,000**	**2,000**	**123,148**
Accumulated amortisation & impairment					
Balance at beginning of period	-	-	(1,130)	(267)	(1,397)
Amortisation expense	-	-	(1,667)	(400)	(2,067)
Balance at end of period	**-**	**-**	**(2,797)**	**(667)**	**(3,464)**
Carrying amounts					
Balance at beginning of period	103,289	5,603	13,870	1,733	124,495
Balance at end of period	**100,545**	**5,603**	**12,203**	**1,333**	**119,684**

Impairment Tests for Goodwill

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

Goodwill of $50,243,000 (2019: $48,993,000) is allocated to the Motorcycle Retailing CGU and Goodwill of $27,255,000 (2019: $51,552,000) 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, the recoverable amount has been determined on a fair value less cost of disposal basis. The fair value less cost of disposal 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 (level 3 fair value). The DCF model adopted by the directors was based on the 2021 financial budget approved by the Board. The key assumptions used in the estimate of the recoverable amount include:

	Retail CGU		Wholesale CGU	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Pre-tax discount rate	**13.2%**	12.3%	**14.5%**	13.5%
Post-tax discount rate	**9.5%**	9.0%	**10.5%**	10.0%
Perpetual growth rate	**2.5%**	2.5%	**2.5%**	2.5%
Budgeted 0-1 year EBITDA growth rate	**-19.5%**	0%	**5.4%**	0%
Budgeted 1-2 year EBITDA growth rate	**-29.5%**	2.5%	**-0.8%**	2.5%
Budgeted 3-5 year EBITDA growth rate	**5.0%**	5.0%	**5.0%**	5.0%

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 10% for the Wholesale CGU and 20% for the Retail CGU at a market interest rate of 4.8%. The discount rates used have been increased from 9.0% to 9.5% in the retail CGU and from 10.0% to 10.5% in the wholesale CGU from the 31 December 2019 interim financial statements. This is due to the increase in economic uncertainty due to the COVID-19 global pandemic.

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 FY21 EBITDA growth rate was estimated taking into account past experience and adjusted as follows:

- New and Used bike sales were projected by taking into account the Group's average sales levels experienced over the past five years, adjusted for reduced sales in the uncertain economic climate;
- The effect of new dealerships and distribution rights were also taken into account; and
- Estimated cash outflow savings as a result of the Group's cost saving measures initiated during April COVID-19 restrictions.

Financial Statements (continued)
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15. Intangible Assets and Goodwill (continued)

FY22 to FY25 EBITDA growth rates were estimated taking into account past experience and expected industry trading conditions that do not exceed past experience.

Due to current economic conditions and uncertainty in relation to the COVID-19 pandemic Directors have critically assessed recoverable amounts and determined that goodwill was impaired for the year ended 30 June 2020 by $24,296,000 in the wholesale CGU. The estimated recoverable amount of the retail CGU exceeded its carrying amount by $17,519,000.

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

	Change required for the carrying amount to equal the recoverable amount			
	Retail		Wholesale	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Pre-tax discount rate	+1.7%	+1.0%	0%	+0.2%
Perpetual growth rate	-3.8%	-2.1%	0%	-0.3%
Budgeted 0-1 year EBITDA growth rate	-8.0%	-0.6%	0%	-10.5%
Budgeted 1-2 year EBITDA growth rate	-11.0%	n/a	0%	n/a
Budgeted 2-5 year EBITDA growth rate	-13.2%	n/a	0%	n/a

16. Equity-accounted Investees

	30 Jun 2020 $'000	30 Jun 2019 $'000
Interest in joint venture	3,164	3,539
	3,164	3,539

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

MCF is structured as a separate entity 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 2020 $'000	30 Jun 2019 $'000
Percentage ownership interest	50%	50%
Assets		
Cash and cash equivalents	3,248	4,321
Loans and receivables	59,263	43,122
Non-current assets	3,701	339
	66,212	47,782
Liabilities		
Current liabilities	311	134
Non-current liabilities	59,574	40,570
	59,885	40,704
Net assets	6,327	7,078
Group's share of net assets (50%)	3,164	3,539
Carrying amount of interest in joint venture	3,164	3,539
Interest income	6,017	2,854
Other revenue	1,339	681
Interest expense	2,274	(1,158)
Income tax benefit/(expense)	69	32
Profit/(loss) after tax	(390)	(153)
Other comprehensive income/(loss)	(361)	(579)
Total comprehensive income (100%)	(751)	(732)
Group's share of total comprehensive income (50%)	(376)	(366)

17. Trade and Other Payables

	30 Jun 2020 $'000	30 Jun 2019 $'000
Trade payables[1]	6,698	7,554
Other Payables	5,954	4,903
	12,652	12,457

[1]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.

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Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

18. Loans and Borrowings – Current

	30 Jun 2020 $'000	30 Jun 2019 $'000
Bailment finance	27,602	28,883
Bank loan	3,000	1,667
	30,602	30,550

Bailment finance is provided on a motorcycle by motorcycle basis by various finance providers and currently bears interest at a rate from 5-12% p.a. (2019: 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.

19. Provisions

	30 Jun 2020 $'000	30 Jun 2019 $'000
Employee benefits	6,380	5,692
Other provisions	79	-
Current provisions	6,459	5,692
Employee benefits	582	592
Other provisions	-	856
Non-current provisions	582	1,448

20. Loans and Borrowings - Non Current

	30 Jun 2020 $'000	30 Jun 2019 $'000
Bank loan	44,623	46,815
Total long term borrowings	44,623	46,815

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 10 January 2023. The weighted average interest rate as at 30 June 2020 was 2.4015%.

Financing arrangements

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

	30 Jun 2020 $'000	30 Jun 2019 $'000
Total facilities		
Bank facilities	51,973	68,977
Bailment finance	55,025	42,089
	106,998	111,066
Used at balance date		
Bank facilities	47,623	53,347
Bailment finance	27,602	28,883
	75,225	82,230
Unused at balance date		
Bank facilities	4,350	15,630
Bailment finance	27,423	13,206
	31,773	28,836

21. Capital and Reserves

Ordinary Shares

Movements in ordinary shares		Number of shares	Issue Price $	$'000
Date	Details			
01 July 2018	Opening balance	61,706,710		120,081
30 June 2019	**Closing balance**	61,706,710		120,081
30 June 2020	**Closing balance**	61,706,710		120,081

Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

21. Capital and Reserves (continued)

Dividends

The following dividends were declared and paid by the Company:

	30 June 2020 Cents per share	30 June 2020 $'000	30 June 2019 Cents per share	30 June 2019 $'000
Dividends on ordinary shares				
2019 final dividend (2019: 2018 final dividend)	-	-	6.5	4,011
2020 interim dividend (2019: 2019 interim dividend)	-	-	-	-
Total Dividends on ordinary shares	-	-	6.5	4,011

Due to the improved trading conditions, your Directors have decided to declare a special dividend of 5 cents per share amounting to $3,085,000 payable on 30 September 2020 with a record date of 9 September 2020.

The amount of franking credits available at the 30% tax rate as at 30 June 2020 to frank dividends for subsequent financial years, is $40,878,247 (2019: $35,547,237).

22. Share-Based Payment Arrangements

During the 2018 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. 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 Performance Rights Issued	Vesting Conditions[1]	Performance Period
Tranche				
2018 Tranche 1	24 April 2018	59,196	Relative TSR	1 July 2017 to 30 June 2020
2018 Tranche 2	24 April 2018	59,196	EPS CAGR	1 July 2017 to 30 June 2020
2019 Tranche 1	27 June 2019	55,956	Relative TSR	1 July 2018 to 30 June 2021
2019 Tranche 2	27 June 2019	55,956	EPS CAGR	1 July 2018 to 30 June 2021
2020 Tranche 1	26 June 2020	204,760	Relative TSR	1 July 2019 to 30 June 2022
2020 Tranche 2	26 June 2020	204,760	EPS CAGR	1 July 2019 to 30 June 2022
		639,824		

[1] Further details of the vesting conditions are disclosed in 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:

	2020 - Tranche 1	2020 - Tranche 2	2019 - Tranche 1	2019 - Tranche 2
Fair value at grant date	$1.41	$1.65	$0.20	$1.24
Share price at grant date	$1.75	$1.75	$1.32	$1.32
Expected volatility	45%	45%	40%	40%
Annual dividend yield	2.41%	2.41%	2.92%	2.92%
Risk-free interest rate	0.75%	0.75%	1.10%	1.10%
Test date	30 June 2022	31 August 2022	30 June 2021	30 August 2021

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.

Reconciliation of outstanding performance rights

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

	Number of Performance Rights	
	30 June 2020	30 June 2019
Opening balance	**212,577**	118,394
Granted during the year	**409,520**	111,912
Forfeited during the year	-	(17,729)
Exercised during the year	-	-
Closing balance	**622,097**	212,577

Recognised share-based payments expense

The value of performance rights expensed during the year was $77,000 (2019: $89,000).

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Notes to and Forming Part of the Consolidated Financial Statements

23. 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 expected credit losses in respect of trade and other receivables.

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 12) represents the maximum credit exposure. The maximum exposure to credit risk as the reporting date was:

	Retail Segment		Wholesale Segment	
	30 Jun 2020 $'000	30 Jun 2019 $'000	30 Jun 2020 $'000	30 Jun 2019 $'000
Trade and other receivables	**2,640**	3,951	**5,158**	4,436
Provision for doubtful receivables	**(97)**	(97)	**(109)**	(111)
	2,543	3,854	**5,049**	4,325

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 applies a simplified approach to measure expected credit losses from trade receivables using an allowance matrix. Trade receivables comprise a large number of small balances. These balances are allocated into different stages of delinquency between current and write-off. Loss rates for each stage are then applied based on historical loss experience.

Included in the Group's trade receivables balance are debtors with a carrying amount of $898,000 (2019: $519,000), which are past due at the reporting date. Of this balance the Group has provided $206,000 (2019: $208,000) 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 20.

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 18 and 20. The Group's policy is to manage its interest cost using variable rate debt.

As at 30 June 2020 0% (2019: 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 the Group has no intention of fixing interest rates in the immediate future.

Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

23. Financial Instruments – Fair Value and Risk (continued)

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 variables were held constant, the Group's net profit after tax would increase/decrease by $217,000 (2019: $242,000) 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 and applicable functional currencies. 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 below 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 2020	Less than 1 year $'000	1-2 Years $'000	2-5 Years $'000	5+ Years $'000	Total $'000	Interest Rate
Financial liabilities						
Bailment (current)	27,602	-	-	-	27,602	5-12%
Borrowings	4,127	4,081	44,934	-	53,142	2.40%
Lease liabilities	11,255	6,850	11,700	4,349	34,154	
Forward exchange contracts						
- outflow	4,025	-	-	-	4,025	
- inflow	(3,768)	-	-	-	(3,768)	
Trade and other payables	12,652	-	-	-	12,652	
	55,893	**10,931**	**56,634**	**4,349**	**127,807**	

As at 30 June 2019	Less than 1 year $'000	1-2 Years $'000	2-5 Years $'000	5+ Years $'000	Total $'000	Interest Rate
Financial liabilities						
Bailment (current)	28,883	-	-		28,883	5-12%
Borrowings	3,437	47,386	-		50,823	3.94%
Forward exchange contracts						
- outflow	3,598	-	-		3,598	
- inflow	(3,598)	-	-		(3,598)	
Trade and other payables	12,457	-	-		12,457	
	44,777	**47,386**	**-**	**-**	**92,163**	

24. List of Subsidiaries

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.

Name of Entity	Place of Incorporation	Equity Held 30 Jun 2020 %	Equity Held 30 Jun 2019 %
Cassons Pty Ltd	Australia	100	100
Innovative Dealership Solutions Pty Ltd	Australia	100	100
Innovative Dealership Solutions Unit Trust	Australia	100	100
Motor Cycle Accessories Supermarket Pty Ltd	Australia	100	100
Motorcycle Holdings Group Unit Co Pty Ltd	Australia	100	100
Motorcycle Holdings Group Unit Trust	Australia	100	100
Motorcycle Holdings IDS Pty Ltd	Australia	100	100
Motorcycle Holdings Operations Pty Ltd	Australia	100	100
Motorcycle Holdings TCO Pty Ltd	Australia	100	100
Motorcycle Holdings Unit Co Pty Ltd	Australia	100	100
Motorcycle Riding School Pty Ltd	Australia	100	100
MW Motorcycles Pty Ltd	Australia	100	100
Myway Services Pty Ltd	Australia	100	100
Netpark Pty Ltd	Australia	100	100
North Ride Pty Ltd	Australia	100	100
Pushgate Pty Ltd	Australia	100	100
Shoreway Pty Ltd	Australia	100	100
Stanbay Pty Ltd	Australia	100	100
Team Moto Pty Limited	Australia	100	100
TeamMoto Unit Trust	Australia	100	100
Trinder Avenue Motors Pty Ltd	Australia	100	100

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

25. Parent Entity

Information relating to MotorCycle Holdings Limited ('the parent entity') at 30 June 2020 is presented below and is in line with the Group's accounting policies.

Financial position	30 Jun 2020 $'000	30 Jun 2019 $'000
Assets		
Current assets	-	2,095
Non-current assets	**123,235**	119,060
	123,235	121,155
Liabilities		
Current liabilities	**2,057**	-
Non-current liabilities	-	-
	2,057	-
Equity		
Issued capital	**120,083**	120,083
Retained earnings	**841**	895
Reserves	**254**	177
	121,178	121,155
Financial performance		
Profit/(loss) for the year	**(54)**	7,948
Total comprehensive income	**(54)**	7,948

26. 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 24 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.

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27. Business Combinations

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

Date	Name	Type	Location
18 October 2018	Northside Harley-Davidson	Certain business assets and liabilities	Brunswick, Victoria
1 November 2018	Canberra Motorcycle Centre	Certain business assets and liabilities	Fyshwick, ACT

The business combinations contributed revenue of $22,861,000 and net profit after tax of $435,000 for the year ended 30 June 2020 from their dates of acquisition.

The Group would have reported $403,173,000 in consolidated revenue and $8,473,000 in consolidated net loss after tax for the year ended 30 June 2020 had the business combinations occurred at the beginning of the reporting period.

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)	299
Inventory – parts and accessories	1,198
Property, plant and equipment	492
Other assets	27
Total assets acquired	**2,016**
Trade and other payables	94
Employee entitlements	191
Total liabilities assumed	**285**
Net identifiable assets acquired	**1,731**
Goodwill recognised	1,250
Net assets acquired	2,981
Purchase consideration – cash	2,581
Purchase consideration – deferred	400
Total purchase consideration – cash	**2,981**

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.

28. 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 2020 no subsidiary was in default in respect of any arrangement guaranteed by the parent entity.

Financial Statements (continued)
Notes to and Forming Part of the Consolidated Financial Statements

29. Leases

The Group leases retail and warehouse facilities. The leases run for periods between 3 and 10 years, with options to renew the leases after those dates. Lease payments are renegotiated at the exercise of each option period to reflect market rates. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements. Information about leases is presented below.

Right-of-use Assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented separately on the balance sheet.

	$'000
Balance at 1 July 2019	33,125
Depreciation charge for the year	(9,401)
Additions to right-of-use assets	5,071
Balance at 30 June 2020	**28,795**

Amounts recognised in profit or loss

	$'000
30 June 2020 - Leases under AASB 16	
Interest on lease liabilities	1,243
30 June 2019 - Operating leases under AASB 17	
Rent expense	10,026

Amounts recognised in statement of cash flows

	30 June 2020 $'000
Total cash outflow for leases	10,933

Extension of options

Some property leases contain extension options exercisable by the Group up to six months before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

30. Auditor's Remuneration

KPMG Australia	30 Jun 2020 $	30 Jun 2019 $
Audit or review of the financial report	343,600	305,000
Other services	83,100	107,181
	426,700	412,181

31. 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 2020 $	30 Jun 2019 $
Short term employee benefits	1,276,943	2,059,396
Share-based payments	194,990	47,709
Post employment benefits	103,710	160,239
Other long term benefits	13,822	104,136
	1,589,465	2,371,480

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 30 June 2016 and options have been exercised for the first of three 5-year options to extend them. The leases are subject to a formal market review at each option renewal.

Total rental payments (excluding outgoings) payable to related parties for the year ended 30 June 2020 was $1,828,000 (year ended 30 June 2019: $2,436,000).

Total undiscounted liabilities recognised in lease liabilities under AASB 16 as at 30 June 2020 in respect to the 11 properties that are owned by entities controlled by David Ahmet was $1,924,000.

Financial Statements (continued)

Notes to and Forming Part of the Consolidated Financial Statements

31. Related Parties (continued)

(ii) The Group has entered into leases in respect to three properties that are owned by entities controlled by Rob Cassen, Non-executive Director, or that are part-owned by entities controlled by Rob 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 payments (excluding outgoings) payable to related parties for the year ended 30 June 2020 was $2,584,000 (2019: $2,558,000).

Total undiscounted liabilities recognised in lease liabilities under AASB 16 as at 30 June 2020 in respect to the three properties that are owned by entities controlled by Rob Cassen was $3,922,000.

Other related parties

The Group is entitled to finance commission revenue from its joint venture, MCF (refer Note 16). Total finance revenue recognised by the Group for the year ended 30 June 2020 was $2,194,000 (2019: $2,364,000), of which $127,000 (2019: $155,000) was receivable at year end.

32. Reconciliation of Cash Flows from Operating Activities

	30 Jun 2020 $'000	30 Jun 2019 $'000
Net profit after tax	**(9,120)**	8,345
Add/(less) non-cash movements		
Depreciation and amortisation	**3,787**	3,790
Impairment expense	**24,296**	-
(Profit)/loss from equity-accounted investee	**195**	77
Equity settled share-based payment	**77**	89
(Increase)/decrease in assets		
Receivables	**626**	(1,371)
Inventories	**11,468**	3,026
Deferred tax assets	**775**	642
Increase/(decrease) in liabilities		
Payables	**(329)**	551
Bailment finance liability	**(1,281)**	4,506
Provisions	**775**	1,172
Taxes payable	**4,234**	(1,826)
Net cash inflow from operating activities	**35,503**	19,001

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33. Subsequent Events

There continues to be significant uncertainty relating to the future impacts of the pandemic, with a number of states still experiencing high case numbers. There has been no significant impact of the pandemic on the Group's operations subsequent to 30 June 2020 but management continue to closely monitor the potential impacts on the Group.

Directors' Declaration

The Directors make the following Directors' Declaration for the year ended 30 June 2020:

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 66 and the Remuneration report 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 2020 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 24 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 2020.

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 27th day of August 2020

David Foster
Chair

Dated at Brisbane this 27th day of August 2020

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 2020 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 2020;
- 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 (including Independence Standards)* (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; and
- Valuation of inventory.

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.

Recoverability of goodwill ($77,499,000)

Refer to Note 15 to the Financial Report

The key audit matter	How the matter was addressed in our audit
A key audit matter for us was the Group's annual testing of goodwill for impairment, given the size of the balance (being 30% of total assets) and the significantly higher estimation uncertainty continuing from the business disruption impact of the COVID-19 global pandemic. We focused on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal models, including: • Forecast operating cash flows, growth rates and terminal growth rates – the Group has experienced unusual trading conditions driven by government stimulus policies associated with COVID-19. This impacted the Group through increased demand for products, however there is uncertainty in how long increased demand will continue. These conditions increase the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. • Forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the Group's models are sensitive to small changes in these assumptions. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy. • Discount rates – these are complicated in nature and vary according to the conditions	Our procedures included: • Considering the appropriateness of the fair value less costs of disposal method used by the Group in performing the annual test of goodwill for impairment against the requirements of the accounting standards. • Assessing the integrity of the fair value less costs of disposal models used, including the accuracy of the underlying calculation formulas. • Meeting with management to understand the impact of COVID-19 on the Group and the impact of government response programs to the FY20 results. • Comparing the forecast cash flows contained in the models to Board approved forecasts. • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. We noted previous trends where constrained market conditions existed and how they impacted the business, for use in further testing. • Assessing the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards. • Working with our valuation specialists, we challenged the Group's forecast cash flow and growth assumptions in light of current uncertain trading conditions. We applied increased

and environment the specific Cash Generating Unit (CGU) is subject to from time to time, and the models approach to incorporating risks into the cash flows or discount rates. The Group's modelling is sensitive to small changes in the discount rate. The Group's impairment models use adjusted historical performance and a range of internal and external sources as inputs to the assumptions. Modelling, using forward-looking assumptions, tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. In addition to the above: • The carrying amount of the net assets of the Group exceeded the Group's market capitalisation at year end, increasing the possibility of goodwill being impaired; • The total recoverable amount of CGUs exceeded the Group's market capitalisation at year end; and • The Group recorded an impairment charge of $24.3m against goodwill in the Wholesale CGU. These factors increased our audit effort in this area. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	scepticism to forecasts in the areas where previous forecasts were not achieved. We compared forecast growth rates and terminal growth rates to external market data, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. • Working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • Considering the sensitivity of the models by varying key assumptions, such as forecast operating cash flows, forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures. • Working with our valuation specialists in assessing the Group's analysis of the market capitalisation shortfall versus the total recoverable amount of all CGUs. This included consideration of the market capitalisation range implied by recent share price trading ranges, to the Group's latest internal enterprise valuation model. • Recalculation of the impairment charge against the recorded amount disclosed. • Assessing the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Valuation of inventory ($74,425,000)

Refer to Note 13 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
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 29% of total assets); and • The high level of judgement required by us in evaluating the Group's assessment of recoverability based on age, brand, condition and historical sales data, together with higher estimation uncertainty arising from the business disruption impact of the COVID-19 global pandemic. 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.	Our procedures included: • Considering 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 determining the provisions for obsolescence for each class of inventory. • Tracing the age and cost of inventory at 30 June 2020, on a sample basis, to underlying purchase documents, as key inputs into the Group's assessment 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.

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.

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 the 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/admin/file/content102/c3/ar1_2020.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 2020, 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 pages 16 to 25 of the Directors’ Report for the year ended 30 June 2020.

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
27 August 2020

Financial Statements (continued)
Additional Information

Additional Information as at 24 August 2020

Corporate Governance Statement

The Company's Corporate Governance Statement can be found at www.mcholdings.com.au/page-1000/

Substantial Shareholders

The names of substantial holders in the Company, the number of securities in which each substantial holder and the substantial holder's associates have a relevant interest as disclosed in substantial holding notices given to the Company and listed on the ASX website and the percentage of total issued capital are:

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 11,288,994 shares at 18.29% 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. Auscap Asset Management Limited holding 4,230,000 shares at 6.86% of the total issued capital.
5. Mitsubishi UFJ Financial Group, Inc. holding 4,088,218 shares at 6.63% of the total issued capital.
6. Renaissance Smaller Companies Pty Ltd holding 3,245,880 shares at 5.26% 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	318	147,353	0.24
1,001 - 5,000	592	1,667,913	2.70
5,001 - 10,000	280	2,083,140	3.38
10,001 - 100,000	254	6,831,284	11.07
100,001 Over	37	50,977,020	82.61
Total	**1,481**	**61,706,710**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $1.9200 per unit	261	107	8,084

Escrowed Shares

Nil.

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 twenty holders (ungrouped) of ordinary fully paid shares:

Rank	Name	Units	% Units
1	CITICORP NOMINEES PTY LIMITED	12,657,788	20.51
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,188,509	11.65
3	GREENSLIDE PTY LTD	6,300,000	10.21
4	KENLAKE PTY LIMITED	4,179,394	6.77
5	NATIONAL NOMINEES LIMITED	3,561,815	5.77
6	FREDA CASSEN	3,181,819	5.16
7	R CASSEN PTY LTD (R CASSEN FAMILY A/C)	3,181,819	5.16
8	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,992,201	4.85
9	MR BRUCE ROLAND COLLINS	839,610	1.36
10	MR ROBERT JOHN DONOVAN & MS CORINA LEE TROY (DONOVAN FAMILY S/F A/C)	598,052	0.97
11	DAVID HEDLEY AHMET	581,596	0.94
12	MRS KAREN ANN COOKSLEY	575,001	0.93
13	MR ROBERT BRUCE TINLIN	499,785	0.81
14	MR MARTIN JOHN POCOCK & MRS MICHELLE JUNE POCOCK (POCOCK FAMILY A/C)	385,291	0.62
15	MR CHRISTOPHER ANDREW CHENOWETH	338,938	0.55
16	DR DAVID JOHN RITCHIE + DR GILLIAN JOAN RITCHIE (D J RITCHIE SUPER FUND A/C)	306,600	0.50
17	BANJO SUPERANNUATION FUND PTY LTD (P D EVANS PSF A/C)	283,545	0.46
18	NEWECONOMY COM AU NOMINEES PTY LIMITED (900 ACCOUNT)	254,686	0.41
19	MRS TANYA MAREE SHIPARD	218,750	0.35
20	HANCROFT PTY LTD	217,646	0.35
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)		**48,342,845**	**78.34**
Total Remaining Holders Balance		**13,363,865**	**21.66**

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. The annual value of the rent under the leases is set out in Note 30 to the Financial Statements.

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 Rob Cassen (Executive Director), or that are part-owned by entities owned and controlled by Rob 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

Registered Office	MotorCycle Holdings Limited 68 Moss Street Slacks Creek QLD 4127 Tel: +61 7 3380 2235 Email: nicole.spink@mcholdings.com.au
ASX Ticker Code	MTO
Directors	David Foster David Ahmet Warren Bee Rick Dennis Peter Henley Rob Cassen
Chief Financial Officer	Bob Donovan CPA
Company Secretary	Nicole Spink FCPA FGIA FCG(CS)
Auditor	KPMG Level 16 Riparian Plaza 71 Eagle Street Brisbane QLD 4000
Location of Share Registry	Computershare Investor Services Pty Ltd Level 1 200 Mary Street Brisbane QLD 4000 Tel (within Australia): 1300 850 505 Tel (outside Australia): +61 3 9415 4000 Website: computershare.com.au
Website	www.mcholdings.com.au

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