Results for Announcement to the Market

Motorcycle Holdings Limited

ABN 29 150 386 995

APPENDIX 4D
HALF YEAR REPORT
for the six months ended 31 December 2017

MotorCycle Holdings Limited
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Details of the reporting period

Current Period: 1 July 2017 – 31 December 2017

Previous Corresponding Period (pcp): 1 July 2016 – 31 December 2016

Results for announcement to the market

Comparison to previous corresponding period	Increase/Decrease	Change %	To A$'000
Revenue from ordinary operations	Increase	16.1%	140.090
Statutory profit from ordinary activities after tax attributable to members	Decrease	-24.8%	4,180
Net profit attributable to members	Decrease	-24.8%	4,180

Dividends	Amount per security	Franked amount per security
Interim dividend	5.5 cents	5.5 cents
Record date for determining entitlement to the interim dividend		15/03/2018
Date the interim dividend is payable		4/04/2018

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	21 cents	39 cents

Results Overview

Table 1: Highlights

Six months to:	Dec 2017	June 2017	Dec 2016	Dec 2017 vs Dec 2016 (%)
Motorcycle sales (units)	8,867	7,749	8,561	4
Revenue ($M)	140.1	114.6	120.7	16
Underlying EBITDA ($M)*	9.0	6.2	8.6	5
EBITDA ($M)	7.4	6.0	8.6	-14
Statutory NPAT ($M)	4.2	3.7	5.6	-25
Dividend (cents)	5.5	7.5	7.5	-27

***Underlying EBITDA excludes costs of $1.6 million associated with acquisitions including dealerships and Cassons Pty Ltd.**

Leading Australian motorcycle retailing group MotorCycle Holdings Limited (ASX:MTO) has achieved record motorcycle sales and revenues in the six months to December 2017, resulting in a 5% increase in underlying earnings to $9.0 million.

Interim dividend has been reduced to 5.5 cents per share on share capital expanded through the $120 million acquisition of the Cassons motorcycle accessories business completed in October 2017.

The acquisition of Cassons, together with the continued expansion of the Company's motorcycle dealership network, has enabled MotorCycle Holdings to report sales growth and an increase in market share, as well as establishing a firm platform for the future.

Four dealerships were added since December 2016, taking the total network to 28 motorcycle dealership locations, and confirming the Company as the largest motorcycle dealership operator in Australia.

The Cassons acquisition has further enhanced the Company's business footprint, adding wholesale distribution of motorcycle parts and accessories as well as expanding retail sales through the Cassons' network of Motorcycle Accessories Supermarkets (MCA) in New South Wales, Victoria and on-line.

Cassons and MCA contributed approximately $12.3 million to sales in the two months under Motorcycle Holdings ownership, and is expected to boost revenues by more than $70 million in a full year.

The growth in MotorCycle Holdings' motorcycle sales has been achieved thanks to the expanded dealership network, despite a marked downturn in industry wide sales.

The Company achieved record motorcycle sales of 8,867 units for the six months to December, which was up 3.6% from 8,561 units in the December half of 2016.

In the new motorcycle segment, sales totaled 4,944 units, which was steady compared with December 2016. Across the industry, new motorcycle sales in the six months to December fell by 13.7% to 53,203. The Company has increased its market share of new bike sales to 9.3%, from 8.0% previously.

Used motorcycle sales grew by 8.4% to 3,923 units, which again was driven by new dealerships. Sales of used bikes declined by approximately 14% in Queensland, Motorcycle Holdings major market.

The Company's sales performance was driven by the expansion of its dealership network. The dealerships added during the year were Action Motorcycles Gold Coast (March 2017), Evolution Motorcycles Epping (March 2017), Sunshine Coast Harley-Davidson Kunda Park Qld (May 2017) and TeamMoto Frankston (December 2017).

The additional stores contributed approximately $21 million to revenues during the six months to December 2017, with further growth expected in the current half.

The expansion of the dealership network and the consequent increase in bike sales led to increases in revenues in the Parts and Accessory division, where sales were up 8.8% in motorcycle stores, and 75.3% overall, and Service, where revenues rose 9.3%.

In the Finance division, revenues were negatively affected by changes made by general insurance companies to their premiums and commission rates as a consequence of the ASIC review into add-on insurance. The changes resulted in insurance commissions received by the Company reducing by approximately $1 million compared with the prior six months to December.

Operating expenses (excluding acquisition costs) increased by 24% to $29.3 million during the half year, with the increase mainly due to additional occupancy costs and higher employee benefits related to Cassons and the additional stores.

The acquisition of Cassons and new dealerships led to transaction costs of approximately $1.6 million in the half year. Excluding these costs, the underlying EBITDA for the half year increased 5% to $9.0 million.

The underlying EBITDA margin remained healthy at 6.4%.

Revenues are forecast to increase significantly in the current half due to a full period contribution from the Cassons business as well as from additional stores notwithstanding that trading conditions are expected to remain subdued. TeamMoto Yamaha Sunshine Coast was added to the network in January 2018 and Central Coast Harley-Davidson will settle in March 2018. TeamMoto Frankston which was acquired in December 2017 will also contribute. An accessory store, MCA Keilor, will open in April 2018.

MotorCycle Holdings is already making significant progress in bringing its expertise and business practices to effect in the Cassons business, maximizing cross-sell opportunities across the group and increasing efficiencies. The Cassons motorcycle accessory supermarket stores have now been granted a motor dealer license in NSW and will commence retailing used motorcycles in 2018.

Company founder and Managing Director, David Ahmet, said the new stores and the Cassons acquisition were providing significant opportunities to lift sales and reduce costs across the group.

"We are continuing to grow our sales numbers and increase market share despite the adverse conditions in the industry, and that demonstrates the resilience of our business model and the expertise of our team," he said.

Chairman David Foster said the Company had established a solid platform for increased shareholder returns.

"The outlook for the business remains favourable and we look forward to reporting good results in the current year," he said.

Table 2: Results for the 6 months to 31 December 2017

$m	Notes	Dec-17	Jun-17	Dec-16	Change Dec 17 vs Dec 16
Revenue		140.1	114.6	120.7	16%
Materials purchased and change in inventories		-101.4	-84.5	-88.4	15%
Gross Profit		38.7	30.1	32.3	20%
Employee benefits expense		-20.9	-17.3	-17.4	20%
Occupancy expenses		-4.0	-3.0	-2.8	43%
Other expenses	1	-4.5	-3.3	-3.4	32%
Bailment interest	2	-0.3	-0.3	-0.1	200%
Operating expenses		-29.7	-23.9	-23.7	25%
Underlying EBITDA	**3**	**9.0**	**6.2**	**8.6**	**5%**
Acquisition costs		-1.6	-0.2		-
EBITDA		**7.4**	**6.0**	**8.6**	**-14%**
Depreciation and amortisation		-0.9	-0.5	-0.4	125%
Net interest (excluding bailment finance facilities)		-0.5	-0.2	-0.2	150%
Profit Before Tax		**6.0**	**5.3**	**8.0**	**-25%**
Tax expense		-1.8	-1.6	-2.4	-25%
Net Profit After Tax		**4.2**	**3.7**	**5.6**	**-25%**

1. Other expenses notably include motor vehicle fleet and distribution costs and marketing expenses.
2. The Company includes the accrued interest cost associated with its bailment finance facilities within EBITDA as it is considered an integral operating cost of the Company doing business
3. Underlying EBITDA excludes costs related to acquisitions including dealerships and Cassons Pty Ltd

Table 3: Operational metrics

	Dec 17	Jun 17	Dec 16	% Change Dec 17 vs Dec 16
New motorcycles sold	4,944	4,146	4,943	0
Used motorcycles sold	3,923	3,603	3,618	8.4
Total motorcycles sold	8,867	7,749	8,561	3.6

MotorCycle Holdings Limited and its Controlled Entities

ABN 29 150 386 995

Interim Financial Report for the half year ended 31 December 2017

MotorCycle Holdings Limited
68 Moss Street
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Directors' Report

The directors present their report together with the consolidated interim financial statements of MotorCycle Holdings Limited (the "Company") and its controlled entities (the "Group") for the six months ended 31 December 2017 and the auditor report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

David Foster Chairperson	Appointed 1 March 2016 (Non-Executive Director), Appointed 22 July 2016 (Chairperson)
David Ahmet Managing Director	Appointed 30 June 2011
Warren Bee Non-Executive Director	Appointed 30 June 2011
Rick Dennis Non-Executive Director	Appointed 23 August 2016
Peter Henley Non-Executive Director	Appointed 1 March 2017
Rob Cassen Executive Director	Appointed 31 October 2017

Review of Operations

The Group recorded a net profit after tax of $4.2 million for the December half year, down 24.8% compared with the results for the six months to December 2016.

The half year saw the $119.8 million acquisition of the Cassons motorcycle accessories business completed in October 2017, as well as four more motorcycle dealerships compared to December 2016.

Costs involved in acquiring the new businesses totalled $1.6 million before tax. These costs are included in other expenses in the consolidated interim statement of profit or loss and other comprehensive income.

Overall Group revenue for the half-year increased 16.1% to $140.1 million.

Motorcycle sales increased to a record of 8,867 units for the six months to December, which was up 3.6% from 8,561 units in the December half of 2016, and 14.1% higher than the 7,749 units sold in the immediately preceding six months to June 2017.

Growth was flat in new motorcycles, where sales totalled 4,944 units, almost identical to December 2016.

Used motorcycle sales grew by 8.4% to 3,923 units.

Most Revenue streams of the Group increased, with revenue in Parts and Accessories increasing 75.3%, and Service revenue up 9.3%.

Finance and Insurance revenue was 10.4% lower, due to industry changes to insurance commissions.

The cost of sales increased 14.8% to $101.4 million, just below the 16.1% revenue increase. Operating costs including the new businesses and the acquisition costs increased 34.4% to $32.7million.

Dividends

A fully franked dividend of 7.5 cents per share was paid on 4 October 2017 (six months ended 31 December 2016: nil).

A fully franked interim dividend of 5.5 cents per share was declared on 26 February 2018.

Subsequent Matters

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

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2017.

Rounding Off

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the consolidated interim financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

David Foster
Chairperson
26 February 2018

David Ahmet
Managing Director
26 February 2018

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

To the Directors of MotorCycle Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of MotorCycle Holdings Limited for the half-year ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Simon Crane
Partner

Brisbane
26 February 2018

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Sales revenue	5	130,679	110,593
Other income	6	9,408	10,068
Raw materials and inventory expense		101,436	88,395
Employee benefits expense		20,870	17,406
Finance costs		818	347
Depreciation and amortisation expense		906	396
Other expenses	6	10,060	6,153
Profit before tax		**5,997**	**7,964**
Income tax expense	7	1,817	2,406
Profit for the period		**4,180**	**5,558**
Other comprehensive income		-	-
Total comprehensive income for the period attributable to owners of the company		**4,180**	**5,558**

	Cents	Cents
Earnings per share		
Basic earnings per share	8.7	13.4
Diluted earnings per share	8.7	13.4

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

Consolidated Interim Statement of Financial Position

As At 31 December 2017

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Current assets			
Cash and cash equivalents		5,603	4,516
Trade and other receivables		8,948	2,867
Inventories	9	75,199	45,225
Current tax assets		199	-
Other		38	-
Total current assets		**89,987**	**52,608**
Non-current assets			
Property, plant and equipment	10	9,980	7,528
Deferred tax assets		-	1,768
Goodwill and other intangible assets	11	122,913	29,357
Other		118	109
Total non-current assets		**133,011**	**38,762**
Total assets		**222,998**	**91,370**
Current liabilities			
Trade and other payables		6,639	8,981
Short term borrowings		25,462	23,097
Current tax liabilities		-	1,215
Provisions		4,542	4,425
Total current liabilities		**36,643**	**37,718**
Non-current liabilities			
Borrowings	12	46,373	11,000
Deferred tax liabilities		2,770	-
Provisions		3,804	517
Total non-current liabilities		**52,947**	**11,517**
Total liabilities		**89,590**	**49,235**
Net assets		133,408	42,135
Equity			
Contributed equity	14	120,080	30,141
Retained earnings		13,328	11,994
Total equity		**133,408**	**42,135**

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

Consolidated Interim Statement of Changes in Equity

For the Six Months Ended 31 December 2017

	Issued Capital $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2017	**30,141**	**11,994**	**42,135**
Comprehensive income for the period			
Profit for the period	-	4,180	4,180
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	4,180	4,180
Transactions with owners in their capacity as owners			
Dividends paid	-	(2,846)	(2,846)
Issue of shares	66,963	-	66,963
Issue of shares related to business combinations	24,500	-	24,500
Transaction costs (net of tax)	(1,524)	-	(1,524)
Total transactions with owners in their capacity as owners	**89,939**	**(2,846)**	**87,093**
Balance at 31 December 2017	**120,080**	**13,328**	**133,408**
Balance at 1 July 2016	**29,635**	**5,560**	**35,195**
Comprehensive income for the period			
Profit for the period	-	5,558	5,558
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	5,558	5,558
Transactions with owners in their capacity as owners			
Dividends paid	-	-	-
Issue of shares	-	-	-
Issue of shares related to business combinations	-	-	-
Transaction costs (net of tax)	-	-	-
Total transactions with owners in their capacity as owners	**-**	**-**	**-**
Balance at 31 December 2016	**29,635**	**11,118**	**40,753**

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

Consolidated Interim Statement of Cash Flows

For the Six Months Ended 31 December 2017

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	155,369	131,843
Payments to suppliers and employees (inclusive of GST)	(149,507)	(126,869)
Interest and other costs of finance paid	(1,445)	(347)
Income taxes paid	(3,288)	(1,875)
Interest received	33	6
Net cash (used)/provided by operating activities	**1,162**	**2,758**
Cash flows from investing activities		
Payment for acquisition of businesses (net of cash acquired)	(97,278)	-
Payments for property, plant and equipment	(732)	(284)
Proceeds from sale of property, plant and equipment	23	22
Net cash (used)/provided by investing activities	**(97,987)**	**(262)**
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	66,963	-
Costs of issue of ordinary shares	(2,205)	-
Proceeds from borrowings	36,000	-
Dividend paid	(2,846)	-
Net cash (used)/provided by financing activities	**97,912**	**-**
Net increase/(decrease) in cash and cash equivalents	1,087	2,496
Cash and cash equivalents at the beginning of the period	4,516	4,226
Cash and cash equivalents at the end of the period	**5,603**	**6,722**

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

Notes to the Consolidated Interim Financial Statements

1. Reporting Entity

MotorCycle Holdings Limited (the "Company") is a company domiciled in Australia. These consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the ownership and operation of motorcycle dealerships engaging in the sale of new motorcycles, used motorcycles, accessories and parts, finance, insurance and warranty products as well as service and repair. The Group also owns and operates a rider training school and a motorcycle repair business which performs smash repair work for insurers. During the period the Group completed its acquisition of Cassons Pty Ltd (see note 15) and now also operates a motorcycle accessories wholesaling business (see note 4).

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2017 are available upon request from the Company's registered office at 68 Moss Street, Slacks Creek, Queensland or at www.mcholdings.com.au.

2. Basis of Preparation

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 34 *Interim Financial Reporting*.

They do not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2017.

These interim financial statements were authorised for issue by the Company's Board of Directors on 26 February 2018.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2017.

3. Use of Judgements and Estimates

In preparing these interim financial statements, Management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017.

In addition, for the acquisition of subsidiary as disclosed in note 15, the fair value of the assets acquired and liabilities assumed were measured on a provisional basis.

4. Operating Segment Information

As a result of the acquisition of Cassons Pty Ltd during the six months ended 31 December 2017 (see note 15), the Group has changed its internal organisation and composition of its reportable segments.

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

	Motorcycle Retailing		Motorcycle Accessories Wholesaling		Total	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	125,770	110,593	4,909	-	130,679	110,593
Inter-segment revenue	-	-	3,162	-	3,162	-
Segment profit before tax	4,416	7,964	1,581	-	5,997	7,964

	Motorcycle Retailing		Motorcycle Accessories Wholesaling		Total	
	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets[1]	186,579	91,370	36,418	-	222,997	91,370
Segment liabilities	88,657	49,235	933	-	89,590	49,235

[1] For the purpose of the interim financial statements, the acquired goodwill and other intangible assets from the acquisition of Cassons (refer note 15) has been allocated to Motorcycle Retailing segment. This is on the basis that the acquisition accounting has been performed on a provisional basis, and will be allocated across the Group's Operating Segments upon completion of an independent valuation.

5. Sales Revenue

	31 Dec 2017	31 Dec 2016
	$'000	$'000
New motorcycles	57,619	54,854
Used motorcycles	35,612	32,154
Parts and accessories	31,350	17,888
Service	5,764	5,275
Other	334	422
	130,679	110,593

6. Other Income and Expenses

	31 Dec 2017 $'000	31 Dec 2016 $'000
Other income		
Finance and insurance Income	7,612	8,495
Interest income	33	6
Other income	1,763	1,567
	9,408	**10,068**

Other expenses

During the six months ended 31 December 2017 expenses of $1,647,000 were incurred for acquisitions (six months ended 31 December 2016: $55,000). These are included in 'other expenses' in the consolidated interim statement of profit or loss and other comprehensive income.

7. Tax Expense

The Group's consolidated effective tax rate in respect of the continuing operations for the six months ended 31 December 2017 was 30 percent (for the six months ended 31 December 2016: 30 percent).

8. Financial Instruments

The financial instruments held by the Group at 31 December 2017 relate to cash and cash equivalents, trade receivables and payables, and borrowings.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair value.

9. Inventories

During the six months ended 31 December 2017 the Group wrote-down its inventory to net realisable value by $184,000. (six months ended 31 December 2016: $39,000) This relates to stock obsolescence and was determined using the same principles adopted for the year ended 30 June 2017.

	31 Dec 2017 $'000	30 Jun 2017 $'000
New and demonstrator motorcycles (at cost)	28,370	24,889
Less: write-down to net realisable value	(165)	(142)
New and demonstrator inventory	**28,205**	**24,747**
Used motorcycles (at cost)	9,365	10,599
Less: write-down to net realisable value	(95)	(169)
Used inventory	**9,270**	**10,430**
Parts, accessories and other consumables (at cost)	41,425	13,514
Less: write-down to net realisable value	(3,701)	(3,466)
Parts, accessories and other consumable inventory	**37,724**	**10,048**
Total inventories	**75,199**	**45,225**

10. Property, Plant and Equipment

During the six months ended 31 December 2017, the Group acquired assets with a cost of $3,018,000 (six months ended 31 December 2016: $284,000). This amount excludes capitalised borrowing costs, but includes assets acquired through a business combination (see note 15) of $2,286,000 (six months ended 31 December 2016: $nil).

Assets with a carrying amount of $23,000 were disposed of during the six months ended 31 December 2017 (six months ended 31 December 2016: $22,000), resulting in a gain on disposal of $61,000 (six months ended 31 December 2016: loss of $1,000), and included in 'other income' in the consolidated statement of profit or loss and other comprehensive income.

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:

31 Dec 2017	Leasehold Improvements	Motor Vehicles	Plant and Equipment	Furniture, Fixtures & Fittings	Other Fixed Assets	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at the start of the period	5,279	417	1,084	487	261	**7,528**
Additions	403	130	129	7	63	**732**
Acquired from business combinations	61	349	667	1,174	35	**2,286**
Disposals/transfers	-	(23)	-	-	-	**(23)**
Depreciation expense	(197)	(67)	(162)	(65)	(52)	**(543)**
Carrying amount at end of period	**5,546**	**806**	**1,718**	**1,603**	**307**	**9,980**

30 Jun 2017	Leasehold Improvements	Motor Vehicles	Plant and Equipment	Furniture, Fixtures & Fittings	Other Fixed Assets	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at the start of the period	4,974	374	941	454	261	**7,004**
Additions	320	101	300	14	62	**797**
Acquired from business combinations	328	87	98	76	40	**629**
Disposals/transfers	-	(48)	(6)	(1)	(1)	**(56)**
Depreciation expense	(343)	(97)	(248)	(57)	(101)	**(846)**
Carrying amount at end of period	**5,279**	**417**	**1,085**	**486**	**261**	**7,528**

11. Intangible Assets and Goodwill

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

31 Dec 2017	Goodwill	Trademarks	Customer contracts and relationships	Other intangibles	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at beginning of period	29,357	-	-	-	**29,357**
Acquired through business combinations	71,319	5,600	15,000	2,000	**93,919**
Balance at end of period	**100,676**	**5,600**	**15,000**	**2,000**	**123,276**
Accumulated amortisation					
Balance at beginning of period	-	-	-	-	-
Amortisation expense	-	-	(296)	(67)	(363)
Balance at end of period	-	-	**(296)**	**(67)**	**(363)**
Carrying amounts					
Balance at beginning of period	29,357	-	-	-	29,357
Balance at end of period	**100,676**	**5,600**	**14,704**	**1,933**	**122,913**

30 Jun 2017	Goodwill	Trademarks	Customer contracts and relationships	Other intangibles	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at beginning of period	25,904	-	-	-	**25,904**
Acquired through business combinations	3,453	-	-	-	**3,453**
Balance at end of period	**29,357**	-	-	-	**29,357**
Accumulated amortisation					
Balance at beginning of period	-	-	-	-	-
Amortisation expense	-	-	-	-	-
Balance at end of period	-	-	-	-	-
Carrying amounts					
Balance at beginning of period	25,904	-	-	-	25,904
Balance at end of period	**29,357**	-	-	-	**29,357**

12. Loans and Borrowings

During the period the Group obtained borrowings of $36 million to partially fund the acquisition of Cassons Pty Ltd. Long term borrowings are:

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank loan[1]		46,373	11,000
Total long term borrowings		**46,373**	**11,000**

[1]Interest bearing loan is secured on a fixed and floating charge over the present and future interest of all assets and undertakings of the Group's controlled entities. The loan has a maturity date of 31 October 2020. The weighted average interest rate as at 29 December 2017 was 3.9%.

13. Contingent Liabilities

There have been no material changes in contingent assets or liabilities since 30 June 2017.

14. Capital and Reserves

a. Rights Issue and Issue of Ordinary Shares

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

The Company issued and allotted the 17,393,072 New Shares on 27 October 2017, and trading commenced 30 October 2017. The Company also issued 6,363,638 shares on 31 October 2017 as part of the purchase consideration for the acquisition of Cassons Pty Ltd (see note 15).

b. Dividends

The following dividends were declared and paid by the Company:

	31 Dec 2017 $'000	31 Dec 2016 $'000
Final Dividend for the 2017 financial year	2,846	-
2018 fully franked interim dividend of 5.5 cents per fully paid share payable on 4 April 2018	3,394	2,846

The total 2018 interim dividends on ordinary shares determined but not recognised in the consolidated interim statement of financial position are estimated based on the total number of shares on issue as at 31 December 2017. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2018 will be based on the actual number of shares on issue on the record date.

15. Business Combinations

Acquisition of Cassons Pty Ltd

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

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

In the two months to 31 December 2017, Cassons contributed revenue of $12,305,000 and net profit after tax of $1,264,000. The Group would have reported $164,698,000 in consolidated revenue and $6,709,000 in consolidated net profit after tax for the six months ended 31 December 2017 had the business combinations occurred at the beginning of the reporting period.

Consideration Transferred

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

	31 Dec 2017 $'000
Cash	96,887
Equity instruments (6,363,638 ordinary shares)	24,500
Working capital adjustment amount payable/(receivable)	(1,552)
Total consideration transferred	**119,835**

Equity instruments issued

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

Acquisition-related costs

The Group incurred acquisition-related costs of $1,417,000 relating to external legal fees and diligence related costs. These amounts have been included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

Identifiable assets acquired and liabilities assumed

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

	Total $'000
Cash and cash equivalents	569
Trade and other receivables	5,580
Inventories	28,314
Property, plant and equipment	2,049
Tax assets	1,693
Intangible assets (net of tax)	15,820
Other assets	256
Total assets acquired	**54,281**
Trade and other payables	2,320
Current tax liability	559
Employee and other provisions	2,434
Total liabilities assumed	**5,313**
Net identifiable assets acquired	48,968

Trade and other receivables does not comprise any amounts expected to be uncollectable at the date of acquisition.

Fair value measured on a provisional basis

The fair values of the above net identifiable assets have been measured on a provisional basis, until the completion of an independent valuation.

Goodwill

Goodwill arising from the acquisition have been recognised as follows.

	Total $'000
Total consideration transferred	119,835
Fair value of net identifiable assets	(48,968)
Goodwill	70,867

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

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

Dealership Acquisitions

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

Date	Name	Type	Location
6 December 2017	Frankston Yamaha	Certain business assets and liabilities	Frankston, Victoria
19 December 2017	Freestyle Honda	Certain business assets and liabilities	Frankston, Victoria

The business combinations contributed revenue of $263,000 and net loss after tax of $65,000 for the six months ended 31 December 2017 from their dates of acquisition. The Group would have reported $141,375,000 in consolidated revenue and $3,853,000 in consolidated net profit after tax for the six months ended 31 December 2017 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)	80
Inventory – parts and accessories	229
Property, plant and equipment	229
Other assets	40
Total assets acquired	**578**
Trade and other payables	27
Employee entitlements	43
Total liabilities assumed	**70**
Net identifiable assets acquired	**508**
Goodwill recognised	452
Net assets acquired	**960**
Total purchase consideration – cash	**960**

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

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

16. Related Parties

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 part-owned by David Ahmet or that are part-owned by entities owned and controlled by David Ahmet.

The terms of these leases were negotiated on commercial arms' length basis in 2016 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 current lease term expired on the 30 June 2016 and options have been exercised for the first of the three 5-year options to extend the lease period to 30 June 2021.

Total rental expense payable to related parties for the six months ended 31 December 2017 was $1,091,000 (six months ended 31 Dec 2016: $950,000).

(ii) The Group has entered into leases in respect to three properties that are owned by entities owned and controlled by Robert Cassen.

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

Total rental expense payable to related parties since the acquisition of Cassons was $462,000 (six months ended 31 Dec 2016: $nil).

17. Subsequent Events

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

18. New Standards and Interpretations not yet Adopted

The following standards, issued but not mandatory for the interim reporting period ended 31 December 2017, have not been adopted by the Company in preparing these consolidated interim financial statements.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces AASB 118 *Revenue* and related interpretation. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is continuing to assess the potential impact of AASB 15 on its systems, processes, consolidated financial statements, and reported results in accordance with an implementation plan.

AASB 9 *Financial Instruments*

AASB 9, published in July 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. As previously reported, the actual impact of adopting AASB 9 on the Group's consolidated financial statements in 2018 cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time, as well as accounting elections and judgments that it will make in the future. Any likely material impacts will be reported in our full year FY18 financial statements.

AASB 16 *Leases*

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

Directors' Declaration

In the opinion of the directors of MotorCycle Holdings Limited ("the Company"):

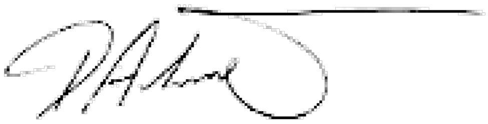
1. the consolidated interim financial statements and notes set out on pages 5 to 17, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance, for the six-month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

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

Signed in accordance with a resolution of the directors:



David Ahmet
Managing Director

Dated at Brisbane this 26th day of February 2018

Independent Auditor's Review Report

To the shareholders of MotorCycle Holdings Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of MotorCycle Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of MotorCycle Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2017;
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of MotorCycle Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Simon Crane
Partner

Brisbane
26 February 2018