

CML GROUP LIMITED

ABN: 88 098 952 277

AND CONTROLLED ENTITIES

FINANCIAL REPORT

For the Year ended

30 June 2018

Contents

Chairperson's report.....	3
Managing director's report.....	4
Directors' report	8
Auditor's independence declaration	20
Financial report.....	21
Directors' declaration	63
Independent auditors' report.....	64
Additional information for publicly listed companies	69

Annual General Meeting

The Annual General Meeting is to be held at the Kirribilli Club, 11 Harbourview Cres, Lavender Bay NSW 2060 on Thursday, 22nd November 2018 at 3.00 pm.

Corporate Information

CML Group Limited's ("the Company's") shares are quoted on the official list of the Australian Stock Exchange Limited. The ASX code for the Company's ordinary fully paid shares is "CGR".

Directors

Greg Riley – Non-Executive Chairperson, Director
Daniel Riley – Managing Director
Sue Healy - Non-executive Director
Geoff Sam - Non-executive Director
Ilkka Tales – Non-executive Director

Company Secretary

Steve Shin – Company Secretary

Registered Office and Principal Place of Business

Level 11, 201 Miller Street,
North Sydney NSW 2060
Telephone: 1300 666 177
Facsimile: (02) 9267 4222
Internet: <http://www.CML-Group.com.au>

Share Registry

Computershare Investor Services Pty Ltd
Level 4, 60 Carrington Street
Sydney NSW 2000
Telephone: 1300 787 272

Other places of business

Level 10, 410 Queen Street, Brisbane QLD 4000
21/574 Plummer Street, Port Melbourne VIC 6207
Unit 5, 510 Woolcock Street Garbutt QLD 4814

Auditors

Pitcher Partners
Level 22, MLC Centre
19 Martin Place
Sydney NSW 2000

Solicitors

HWL Ebsworth
Level 14,
264-278 George Street
Sydney NSW 2000

Bankers

NAB Bank
255 George Street,
Sydney
NSW 2000

Chairperson's Report

This has been an excellent year for CML Group (CML).

In 2015H2, CML announced its capital and growth strategy to grow the funds in use from around \$25m in 2015FY to \$50m+ over the next few years as a way to secure lower cost funding and reduce unutilised funds.

During the second half of 2018FY, CML had increased funds in use to over \$120m, secured warehouse funding at significantly reduced rates and reduced excess cash requirements. Since 2015FY, invoices purchased have increased nearly tenfold to \$1.32b. There have been some one-off costs during 2018FY associated with the change-over of debt facilities but the benefits will be realised in 2019 and beyond. We have now nearly completed the strategy we outlined in 2015.

So where to from here?

Our strategy over the next five years has two streams. Firstly, the organic growth of our current business through utilisation of new technologies and secondly, growth through introduction of new products.

On the technology side, our IT and marketing people have;

- developed online applications to streamline and accelerate the application process for new customers;
- released a mobile app that allows existing customers to review credit limits and request funds drawdowns whenever and wherever they are; and
- recently introduced technology that links to our clients' accounting systems - allowing CML to directly access client data. This will accelerate new business submissions, permit real-time credit management and speed up credit approvals.

Through these and other, developing technologies we will enhance the customer experience and streamline the onboarding of new customers.

Our second strategy stream, new products, has already exceeded expectations. Our equipment finance business was introduced in July 2017 with the expectation of becoming profitable during the 2019FY, but was already contributing to profit during 2018H2 and is growing strongly.

These strategies are not to ignore the successful strategies our team have employed over the past years but to support and enhance them. As a result, CML Group is looking forward to EBITDA exceeding \$20-21m. The team at CML Group, management and staff, have done an exceptional job over the last three plus years to put the Company on a successful footing and a strong growth trajectory – congratulations to all.

As always, I would like to thank our shareholders, long term shareholders who have remained loyal during the ups and downs and new shareholders who have recognised the potential of our Company.

On behalf of the Board,



Greg Riley
Chairperson

20th September 2018

Managing Director's Report

FY'18 Highlights

CML is pleased to report a strong Full Year 2018 result compared to the same period last year, with key highlights as follows;

- Invoices funded up 33% to \$1.33bn
- EBITDA (underlying) up 34% to \$17.6m
- NPATA up 71% to \$6.5m
- Underlying EPS (based on NPATA) up 31% to 3.8cps
- Dividend of 0.75 cents per share declared

CML is pleased to report a substantial uplift in earnings in FY'18, with underlying EBITDA of \$17.6m up 34% and NPATA of \$6.5m up 71% on the prior corresponding period. Reported profit was impacted by non-recurring costs associated primarily with restructuring financing facilities to a lower cost Institutional Bank Warehouse, which is better suited to assist CML's long-term growth objectives.

The strong underlying financial performance for FY'18 was a result of:

- 1) Increasing business volume from traditional sales methods
- 2) Increasing contribution from online originations
- 3) Cross-sell to the emerging Equipment Finance client portfolio
- 4) The Thorn TDF ("TDF") business acquired in Feb-18 being completely integrated into the Group and making a positive contribution to earnings in FY'18.

Managing Director's Report (Continued)

A summary of CML's Full Year result is tabled below:

\$m	FY'17 A	FY'18 A	Δ pcp
Invoices Purchased	1,001	1,328	33%
Invoice Finance	26.0	34.4	32%
Equipment Finance	-	1.0	n/m
Other & Corporate	14.0	11.3	-19%
Group Revenue	40.0	46.7	17%
Invoice Finance	13.4	18.1	35%
Equipment Finance	-	0.3	n/m
Other & Corporate	(0.3)	(0.8)	-367%
Group EBITDA (Underlying)¹	13.1	17.6	34%
D&A	(0.2)	(0.2)	0%
Net Interest ²	(7.8)	(8.1)	3%
Tax	(1.3)	(2.8)	115%
Underlying NPATA³	3.8	6.5	71%
Amortisation of Acquired Entities	(1.4)	(1.0)	29%
Non-recurring Expenses (Post-tax) ³	-	(2.3)	n/m
NPAT Reported	2.5	3.2	28%
EPS Underlying ⁴	2.90	3.80	31%
EPS Reported	1.90	1.85	-3%
DPS	1.25	1.50	20%

¹Excludes penalty component for early redemption of Bond #2

²Excludes interest component for early redemption of Bond #2 and early conversion to equity of Convertible Note

³Post-tax impact of: penalty and interest component for early redemption of Bond #2 and early conversion to equity of Convertible Note

⁴Underlying EPS is based on Underlying NPATA

Invoice Finance

Invoices purchased during FY'18 increased 33% to \$1.33bn compared to the same period last year (FY'17: \$1.00bn).

On significantly higher volumes, margin on invoices purchased in the existing business increased to 2.7% in FY'18 compared to 2.6% in FY'17. At a Group level and incorporating the dilutive effect of the TDF acquisition in Feb-18, which operates on lower margin than the existing business, margins in FY'18 were consistent with the prior year. Revenue growth of 32% in FY'18 was achieved both organically (up 17%) and by acquisition (up 16%).

Managing Director's Report (Continued)

The table below compares the Invoice Finance division for the twelve months to 30 June 2018 against the previous year:

\$m	FY'17 A	Existing Business	TDF Acquisition Contribution*	FY'18 A	Δ pcp
Invoices Purchased	1,001	1,171	157	1,328	33%
Revenue	26.0	31.3	3.1	34.4	32%
EBITDA	13.4			18.1	35%
Gross Margin	2.60%	2.67% ²	1.97% ³	2.59% ¹	-0.01%

The Average Gross Margin for FY'18¹ of 2.59% represents:

- 2.67% from the existing business² (+7bps on FY'17)
- 1.97% on invoices purchased in the TDF book³, acquired in Feb-18

Operational Improvement

Growth momentum is strong, with a record number of new clients won in the month of June 2018 and momentum continuing into FY'19, with new business enquiries and conversion rates improving through marketing and technology designed to;

- Increase the conversion rate of enquiry to client, through better online engagement with prospective customers
- Increase productivity of BDM's, through automation of data collection previously collated manually
- Reduce client acquisition cost, through the ability to increase new business volume without increasing the cost base
- Maximise cross-sell opportunities with Equipment Finance clients

CML's technology includes;

- **Online application** – the Cashflow Finance online application form was launched in November 2017, to assist with information flow from prospective clients and increase efficiency of client take-on.
- **Mobile App** – the Cashflow Finance app allows all clients to view their current funding availability from their mobile device and request a draw-down of funds.
- **Automated finance application** – CML has recently introduced technology that directly links to prospective clients accounting software and other data sources, to automate information flow into a new business submission format for credit review and fast approval.

Receivables and Provisions

CML's service offering can be described as finance and receivables management. Finance is provided against debtors with invoices aged within 90 days from end of month. Actual financial exposure for CML against debtors aged beyond this period is minimal as funding is clawed back from the client by reducing funding availability against the balance of their receivables ledger. CML continues the collections process on behalf of its client and pays them the amount received from the debtor once receipted. The robustness of our receivables management function is demonstrated by the balance of receivables aged 90 days from end of month < 6% at 30 June 18. The strength of CML's credit procedures is demonstrated by realised bad debts of less than 0.1% of invoices financed for each of the last 3 financial years.

Managing Director's Report (Continued)

Equipment Finance

Now that critical scale in invoice factoring has been reached and with a successful sales and marketing structure in place to continue growth in this core division, CML is well positioned to accelerate its growth strategy through product expansion, which commenced with the successful entry into Equipment Finance in July 2017.

Operating under the name Cashflow Equipment Finance, this division settled approximately 100 transactions in its initial twelve months of operation, reaching profitability in H2'18 and contributing a small EBITDA profit of \$0.3m to full year FY'18 earnings. As at 30th June 2018, Cashflow Equipment Finance had gross receivables of over \$13.7m on funds advanced of \$9.6m. In addition to operating as a profitable division of the business, Equipment Finance is contributing to growth in the core Invoice Finance division through significant cross-sell to Equipment Finance clients, with 20% of Equipment Finance transactions in FY'18 also requiring Invoice Finance.

As an early stage business, CML has adopted a conservative provisioning methodology for Equipment Finance for FY19 of 3% of the transaction value, upfront on each settlement. This provisioning methodology allows us to build towards the expected credit loss impairment requirements under AASB 9. This compares with actual bad debts in FY'18 of less than 1% and CML expects its continued focus on credit quality and responsible lending will minimise bad debts as it builds a history in the Equipment Finance industry.

Outlook

CML expects a continuation of growth and an uplift in future earnings, based on the following:

- Increasing business volume – continued organic growth through traditional sales channels and the recently developed technology platform, plus a full year contribution from the TDF business acquired in February 2018.
- Product expansion - Cashflow Equipment Finance has recently increased its new business capacity, with additional credit managers to assess new business submissions, plus an expanded \$20m unsecured Bond, which can be increased at 3 monthly intervals, in-line with business growth. Cashflow Equipment Finance anticipates an increase in new business volume during FY'19.
- Funding costs – following the successful transition of funding during FY'18 to majority institutional bank facility, CML's average funding costs have reduced by circa 3%. The recurring annual pre-tax interest savings in future years will be in excess of \$2.5m on like for like funding volumes with FY'18.

The strong result for FY'18 is reflective of the success of organic growth initiatives, plus the smooth integration of the TDF business acquired in Feb-18. We are confident of another significant uplift in EBITDA in FY'19 from a continuation of organic growth, contained costs, a full year contribution from the TDF business, plus an increase in business volume and profit contribution from the Equipment Finance business. In addition, NPATA will significantly benefit from initiatives completed in FY'18, including significantly lower cost of funds following the transition from Bonds to Institutional Bank Funding in May-18.

Sincerely,



Daniel Riley
CEO

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of CML Group Limited ('CGR') and the entities it controlled at the end of or during the year ended 30 June 2018 and the auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The following Directors were in office during the whole of the year and continue in office at the date of this report unless otherwise stated:-

Greg Riley

Qualifications:

Experience:

Non-Executive Chairman

BSc, Dip ED, G Dip Ed Studies

Greg founded CML Group in 2002 as Careers MultiList, initially focusing on recruitment and labour-hire. After listing on the ASX in 2010, Greg has overseen the growth and transformation of CML to a wider services business including invoice finance in which invoice financing has become the dominant part of the business. Greg was Managing Director from 2002 until late 2010, Director until November 2014 and Chairman to the present. During his tenure as Chairman, Greg has seen the business transform from an inexperienced, new player in the invoice finance sector to a well organised, serious player, with robust systems, strong financial resources, experienced staff and strong growth. Outside CML Group, Greg is a councillor on the Dungog Shire Council.

Responsibilities:

Member of the Audit Committee, Nomination and Remuneration Committee, and Risk Committee,

Shares:

17,211,163 Ordinary Shares

Daniel Riley

Qualifications:

Experience:

Managing Director

BCom, CPA

Daniel is a passionate supporter of SME's and understands that businesses need reliable and flexible funding solutions to support their growth. Daniel joined CML Group in 2002 when the business was in its early development as a service provider to the recruitment industry and was appointed CEO in 2010. Operating under the name Cashflow Finance, Daniel launched the factoring business in 2012 and transitioned the CML from a recruitment services firm to a finance business and has managed an accelerated growth program which includes \$200m+ in debt and equity raisings, the acquisition of four key factoring competitors and the simplification of CML's business structure through divestment of its historic business. More recently, Daniel has overseen the development of an Equipment Finance division, which achieved a small EBITDA profit in its maiden year.

Shares & Options:

3,389,761 Ordinary Shares and 10,000,000 Options

Sue Healy

Qualifications:

Experience:

Independent Non-Executive Director

Fellow RCSA, MAICD

Sue is an experienced Non-Executive Director, and holds a number of advisory and directorship roles. She was the founder and Managing Director of a Talent and HR Consulting Business for 20 years. She has held Executive Leadership roles with the two largest ASX listed human capital companies. She also holds advisory roles with a number of private organisations.

Responsibilities:

Chairperson of the Nomination and Remuneration Committee and Member of the Risk Committee.

Shares:

391,287 Ordinary Shares.

Directors' report (Continued)

Geoffrey Sam OAM

Qualifications:

Experience:

Independent Non-Executive Director

BCom (UNSW) MHA (UNSW) MA (Econ&SocStudies) (Manchester UK)

Geoff has held numerous successful ASX-listed independent board positions including Chairman & Independent Director of Money 3, Independent Director of Hutchison's Childcare Services and Managing Director of Nova Health. Prior to his appointments to ASX-listed companies, Geoffrey undertook numerous Chief Executive positions at Adelaide based hospitals. He is currently the Co-Founder and Director of HealtheCare Australia Pty Ltd, a privately owned health care company comprising a portfolio of 35 hospitals and a community nursing and rehabilitation business.

Responsibilities:

Chairperson of the Audit Committee and Member of the Nomination and Remuneration Committee.

Shares:

1,912,600 ordinary shares.

Ilkka Tales

Qualifications:

Experience:

Non-Executive Director (Appointed 18 September 2017)

BBus

Ilkka is currently Managing Director at Greensill responsible for originating and structuring innovative financial solutions for clients across the Asia Pacific region. Prior to Greensill, Ilkka held senior global roles at MyriadGroup AG and Philips, having previously served as CEO for three Australian listed companies and growing businesses to a global scale across a number of industries. Ilkka is a recognised entrepreneur and sits on a number of private company board as well as mentoring CEO's as a Chairman at the CEO Institute.

Responsibilities:

Chairperson of the Risk Committee and Member of the Audit Committee.

Shares:

N/A

Company Secretary

Steve Shin

Qualifications:

Experience:

Company Secretary

B Com, Chartered Accountant ANZ

Steve joined CML Group as Chief Financial Officer in April 2015, with more than 15 years of experience as key executive in Financial Services, IT and Media ASX listed companies.

Shares:

N/A

Directors' meetings

The following table sets out the number of directors' meetings (including meeting of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or a committee member). During the financial year, 10 board meetings, 4 Audit committee meetings, 1 Risk committee meeting, and 1 Nomination and Remuneration Committee meetings were held.

	Board of Directors		Audit Committee		Risk Committee		Nomination and Remuneration Committee	
	No. eligible to Attend	Attended	No. eligible to Attend	Attended	No. eligible to Attend	Attended	No. eligible to Attend	Attended
G. Riley	10	10	4	4	1	1	1	1
D. Riley	10	10	-	-	-	-	-	-
G. Sam	10	9	4	4	-	-	1	1
S. Healy	10	10	4	4	1	1	1	1
I. Tales	7	6	-	-	1	1	-	-

* Appointed 18 September 2017

Directors' report (Continued)

	2018 \$000's	2017 \$000's
Dividends paid or declared		
Interim fully franked dividend at the tax rate of 30%	1,507	664
Final fully franked dividend at the tax rate of 30%	1,508	998
	<u>3,015</u>	<u>1,662</u>

Dividends declared after the reporting period

Since the end of the reporting period the directors have declared a dividend at 0.75 cents per share (2017: 0.75 cents) fully franked at 30%

1,508	998
<u>1,508</u>	<u>998</u>

Corporate structure

CML Group Limited is a listed public company, limited by shares, incorporated and domiciled in Australia. CML Group Limited "the Group" has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

Nature of operations and principal activities

The Group's principal activity during the financial year was that of financial management and payroll services. There has been no significant change in the nature of these activities during the financial year.

Review of Operations

A review of the operations of the Group during the financial year and the results of those operations are included in the managing director's report.

Financial Position

Net assets for the Group increased by 145% from \$16.4m to \$40.2m. Key movements in statement of financial positions were:-

- Trade receivables increased by 64% from \$130.2m to \$214.0m and trade payables increased by 61% from \$55.6m to \$89.6m mainly due to growth in Invoice Finance division
- Intangible assets increased by 34% from \$12.5m to \$16.7m with the purchase of 1stCash Pty Ltd.
- Total borrowings increased by 47% from \$87.3m to \$128.4m with increased use of bank facility and unsecured corporate bond.
- Total issued equity increased by 138% from \$16.7m to \$39.8m with conversion of the \$10.4m convertible note and \$12.7m (after costs) Institutional Placement.

Directors' report (Continued)

Corporate Governance

The Board endorses the ASX Corporate Governance Principles and Recommendations, 3rd Edition. The Group has taken the opportunity to disclose its Corporate Governance Statement in the Corporate Governance section on the CML Group website (<http://cml-group.com.au/investor-relations/publications-policies/>). As required, the Group has also lodged the Corporate Governance Statement with the ASX.

Future developments, prospects and business strategies

The Group is confident of continued earnings growth through loan book growth and margin improvements. Details of future developments, prospects and business strategies are set out in Managing Director's Report.

Significant Changes in state of affairs

There have been no significant changes of affairs to report during the financial year.

Environmental regulations

The Group's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Indemnifying officers or auditor

During the financial year, the Company paid a premium insuring all directors and officers against any liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the contract.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such by an officer or auditor.

After balance date events

The Group has declared a Final Dividend of 0.75 cents per share, fully franked. The Group has a Dividend Reinvestment Plan (DRP) in place, in which eligible shareholders may participate.

Except as disclosed above, there has been no other matter or circumstance, which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group

Directors' report (Continued)

Remuneration report

This report outlines the remuneration arrangements in place for directors and executives of CML Group Limited. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

Remuneration Policy

The remuneration policy of CML Group Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of CML Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders. The Board obtains professional advice where necessary to ensure that the Company attracts and retains talented and motivated directors and employees who can enhance Company performance through their contributions and leadership.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- The remuneration policy is to be developed by the remuneration committee and approved by the Board and if need be professional advice is sought from independent external consultants;
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and the Company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The remuneration committee reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

Directors' report (Continued)

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel received a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, chose to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. All remuneration paid to key management personnel is valued at the cost to the Company and expensed. The Board's policy remunerates Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Non-Executive Directors receive fees and do not receive options or bonus payments.

Performance-based Remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs targets areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best executives to run the Group. It will also provide executives with the necessary incentives to work to grow long-term shareholder value

Directors' report (Continued)

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) are set out in the following tables:-

(a) Directors' remuneration

Director	Position	Short-Term			Post-employment			Long-term	Share-based payments	TOTAL	Total performance related
		Salary fees	Cash bonus	Non-monetary	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2018											
Daniel Riley	Managing Director	348,558	200,000	-	25,000	-	-	10,002	-	583,560	34
Greg Riley	Non-Executive Director	85,000	-	-	-	-	-	-	-	85,000	-
Sue Healy	Non-Executive Director	50,228	-	-	4,772	-	-	-	-	55,000	-
Ilkka Tales*	Non-Executive Director	39,664	-	-	3,768	-	-	-	-	43,432	-
Geoff Sam	Non-Executive Director	50,228	-	-	4,772	-	-	-	-	55,000	-
		573,678	200,000	-	38,312	-	-	10,002	-	821,992	24

*Appointed 18 September 2017.

Directors' report (Continued)

(a) Directors' remuneration (Continued)

Director	Position	Short-Term			Post-employment			Long-term	Share-based payments	TOTAL	Total performance related
		Salary fees	Cash bonus	Non-monetary	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2017											
Daniel Riley	Managing Director	333,024	175,000	-	23,682	-	-	5,256	-	536,962	33
Greg Riley	Non-Executive Director	85,000	-	-	-	-	-	-	-	85,000	-
Sue Healy	Non-Executive Director	50,228	-	-	4,772	-	-	-	-	55,000	-
Richard Farrington*	Non-Executive Director	33,486	-	-	3,181	-	-	-	-	36,667	-
Geoff Sam	Non-Executive Director	50,228	-	-	4,772	-	-	-	-	55,000	-
		551,966	175,000	-	36,407	-	-	5,256	-	768,629	23

*Resigned 28 February 2017.

Directors' report (Continued)

(b) Executives' remuneration:

Executive	Position	Short-Term			Post-employment			Long-term	Share-based payments	TOTAL	Total performance related
		Salary fees	Cash bonus	Non-monetary	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2018											
Steve Shin	CFO & Company Secretary	200,913	100,000	-	23,779	-	-	-	-	324,692	31
Peter Toohey	Executive General Manager	200,000	375,000	-	21,563	-	-	-	-	596,563	63
		400,913	475,000	-	45,342	-	-	-	-	921,255	52
2017											
Steve Shin	CFO & Company Secretary	200,913	76,680	-	19,629	-	-	-	-	297,222	26
Peter Toohey	Executive General Manager	200,000	347,440	-	39,303	-	-	-	-	586,743	59
		400,913	424,120	-	58,932	-	-	-	-	883,965	48

Directors' report (Continued)

Service Agreement

Remuneration and other terms of employment for the Managing Director is formalised in a service agreement. The agreement provides for performance-related cash bonuses. Other major provisions of the agreements relating to remuneration are set out below:-

Name	Term of Agreement	Base Salary Inc Super \$
Daniel Riley	Ongoing as from 1 October 2010	350,000

Mr D Riley's remuneration increased to \$350,000 from 1 July 2017.

Mr D Riley's contract may be terminated early by either party with six months' notice, subject to termination payments at the discretion of the Remuneration Committee.

Performance Related Pay

The following table summarises the performance conditions for performance linked bonuses;

KMP	2018 Performance conditions
Daniel Riley - Managing Director	Fixed \$200,000 on achievement of the KPIs set by the Remuneration Committee including EBITDA and NPAT targets, establishment of a bank funding facility an improvement in employee engagement rankings.

Options

10,000,000 unlisted options were granted to Mr. Daniel Riley on 17th of March 2017 with an exercise price of \$0.27 and expiry date of 9th March 2022.

Name	Balance 1 Jul 17	Granted during the year	Net other change No.	Balance 30 Jun 18	No. vested	Options vested during the year
Daniel Riley	10,000,000	-	-	10,000,000	10,000,000	8,000,000

Vested options are exercisable on 9th of March 2022 or on a trigger event.

Vesting conditions are continued employment (service condition) and share price milestones (performance condition).

Director fees

All director fees are paid as salary except Mr Greg Riley whose director fees are paid to A. Riley and G.B. Riley Partnership.

Directors' report (Continued)

Equity instrument disclosures relating to key management personnel

2018				
<i>No. of shares held by Key Management Personnel</i>	Balance 1 July 2017	Received as Remuneration	Additions/ (Disposals)/ (No longer KMP)	Balance 30 June 2018
Greg Riley	17,011,163	-	-	17,011,163
Daniel Riley	3,179,761	-	10,000	3,189,761
Geoff Sam	1,228,800	-	618,800	1,847,600
Sue Healy	391,287	-	-	391,287
Ilkka Tales*	-	-	-	-
	21,811,011	-	628,800	22,439,811

*Appointed 18 September 2017

2017				
<i>No. of shares held by Key Management Personnel</i>	Balance 1 July 2016	Received as Remuneration	Additions/ (Disposals)/ (No longer KMP)	Balance 30 June 2017
Greg Riley	22,011,163	-	(5,000,000)	17,011,163
Daniel Riley	3,179,761	-	-	3,179,761
Geoff Sam	1,228,800	-	-	1,228,800
Sue Healy	391,287	-	-	391,287
Richard Farrington*	2,532,527	-	(2,532,527)	-
	29,343,538	-	(7,532,527)	21,811,011

* Resigned 28 February 2017

Convertible Notes

2018				
<i>No. of Convertible Notes held by Key Management Personnel</i>	Balance 1 July 2017	Received as Remuneration	(Conversion)	Balance 30 June 2018
Daniel Riley	50,000	-	(50,000)	-
Greg Riley	50,000	-	(50,000)	-
Total Convertible notes	100,000	-	(100,000)	-

Convertible Notes

2017				
<i>No. of Convertible Notes held by Key Management Personnel</i>	Balance 1 July 2016	Received as Remuneration	Additions	Balance 30 June 2017
Daniel Riley	50,000	-	-	50,000
Greg Riley	50,000	-	-	50,000
Total Convertible notes	100,000	-	-	100,000

Directors' report (Continued)

The following table shows the performance of the Group over the past five financial years in relation to key management personnel compensation paid:-

Financial Year	KMP Short Term Incentives (TSI) \$ 000's	NPAT \$ 000's	Basic EPS Cents	Diluted EPS Cents	Net Equity \$ 000's	NTA per share cents	Dividends \$ 000's	Share price at Year end Cents
2014	29	1,112	1.55	1.55	10,267	5.44	854	24.0
2015	10	17	0.02	0.02	9,903	2.63	468	18.0
2016	25	38	0.04	0.04	14,535	(0.89)	1,121	19.0
2017	424	2,529	1.92	1.80	16,415	2.96	1,662	30.5
2018	375	3,186	1.85	1.75	40,174	11.67	3,015	57.0

Loans to related parties

The Company entered into an unsecured loan agreement with Mr. Daniel Riley to provide \$250,000 for the options issued on 17th of March 2017 at 5.65%. Loan and interest is repayable at earlier of when the options are exercised or on options expiry date 9th March 2022. The loan is accounted for as a share based payment in accordance with accounting standards. The fair value of the options at grant date was \$5,431.

This concludes the Remuneration Report, which has been audited.

Auditor Independence declaration

The auditor's independence declaration for the year ended 30 June 2018 as required under section 307C of the Corporations Act 2001 has been received and is provided with this report.

Non-audit services

Pitcher Partners did not provide any non-audit services during the year.

Proceedings on behalf of the Company

No person has applied for leave of 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 any part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 23 of the Corporations Act 2001, unless otherwise specified.

ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191.

The Company is an entity to which ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.



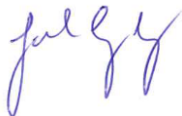
Daniel Riley
Managing Director
Sydney, 20th September 2018

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF CML GROUP LIMITED
ABN 88 098 952 277**

In relation to the independent audit for the year ended 30 June 2018, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

This declaration is in respect of CML Group Limited and the entities it controlled during the year.



JOHN GAVLJAK

Partner

PITCHER PARTNERS

Sydney

20 September 2018

Financial Report For the year ended 30 June 2018

Contents of Financial Report

Consolidated Statement of Profit or Loss and Other Comprehensive Income	22
Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Financial Statements	26

CML Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 30 June 2018

		Consolidated Group	
		2018	2017
	Note	\$ 000's	\$ 000's
Continuing operations			
Revenue	2	46,749	40,007
Expenditure			
Agency fees		(1,566)	(1,034)
Employee benefit expense (direct employees)		(9,196)	(7,475)
Employee benefit expense (on-hire staff)		(11,631)	(11,880)
Depreciation and amortisation expense	10,11	(219)	(165)
Amortisation – Customer Relationships	11	(1,042)	(1,358)
Finance costs - product related		(6,688)	(5,867)
Finance costs - corporate		(3,006)	(2,126)
Rent		(610)	(614)
Bad and doubtful debts		(1,590)	(829)
Insurance		(1,951)	(1,833)
Legal expenses		(1,678)	(717)
Other expenses		(2,527)	(2,347)
Total expenditure		(41,704)	(36,245)
Profit/(Loss) before Income Tax		5,045	3,762
Income tax benefit (expense)	5	(1,859)	(1,273)
Profit/(Loss) for the year from continuing operations		3,186	2,489
Discontinued operations			
Profit/(Loss) for the year from discontinued operations		-	40
Profit attributable to members of the parent entity		3,186	2,529
Other comprehensive income		-	-
Total comprehensive income for the year		3,186	2,529
Earnings/(loss) per Share:			
From continuing and discontinued operations			
Basic earnings/(loss) per share (cents)	18	1.85	1.92
Diluted earnings/(loss) per share (cents)	18	1.75	1.80
From continuing operations			
Basic and diluted earnings/(loss) per share (cents)	18	1.85	1.89
Diluted earnings/(loss) per share (cents)	18	1.75	1.78

The accompanying notes to the financial statements are included on pages 26-62

Consolidated Statement of Financial Position As at 30 June 2018

		Consolidated Group	
		2018	2017
	Note	\$ 000's	\$ 000's
Current Assets			
Cash and cash equivalents	6	15,678	14,927
Trade and other receivables	7	214,102	130,155
Finance lease receivables	8	2,316	-
Other current assets	9	2,304	2,183
		<u>234,400</u>	<u>147,265</u>
Non-Current Assets			
Finance lease receivables	8	7,238	-
Plant and equipment	10	443	367
Intangible assets	11	16,717	12,511
Deferred tax assets	5	1,808	1,321
Total Non-Current Assets		<u>26,206</u>	<u>14,199</u>
Total Assets		<u>260,606</u>	<u>161,464</u>
Current Liabilities			
Trade payables	12	89,592	55,613
Other current liabilities	13	68	93
Borrowings	14	84,273	14,308
Current tax liabilities	5	1,614	1,536
Short-term provision - employees	15	538	364
		<u>176,085</u>	<u>71,914</u>
Non-Current Liabilities			
Borrowings	14	44,166	72,959
Long-term provision - employees	15	67	54
Other liabilities	13	114	122
Total Non-Current Liabilities		<u>44,347</u>	<u>73,135</u>
Total Liabilities		<u>220,432</u>	<u>145,049</u>
Net Assets		<u>40,174</u>	<u>16,415</u>
Equity			
Issued capital	16	39,787	16,711
Accumulated Losses	17	(54)	(735)
Reserves	17	441	439
Total Equity		<u>40,174</u>	<u>16,415</u>

The accompanying notes to the financial statements are included on pages 26-62

Consolidated Statement of Changes in Equity For the Year Ended 30 June 2018

		Share Capital	Reserves	Accumulated Losses	Total Equity
	Note	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Balance at 1 July 2016		16,045	439	(1,949)	14,535
Total comprehensive income for the year		-	-	2,529	2,529
Transactions with owners in their capacity as owners :-					
Contributions of equity	16	693	-	-	693
Share issue costs		(27)	-	-	(27)
Dividends provided for or paid	19	-	-	(1,315)	(1,315)
Balance at 30 June 2017		16,711	439	(735)	16,415
Balance at 1 July 2017		16,711	439	(735)	16,415
Total comprehensive income for the year		-	-	3,186	3,186
Transactions with owners in their capacity as owners :-					
Contributions of equity	16	23,556	-	-	23,556
Share issue costs		(480)	-	-	(480)
Dividends provided for or paid	19	-	-	(2,505)	(2,505)
Foreign currency reserve		-	2	-	2
Balance at 30 June 2018		39,787	441	(54)	40,174

The accompanying notes to the financial statements are included on pages 26-62

Consolidated Statement of Cash Flows For the Year Ended 30 June 2018

		Consolidated Group	
		2018	2017
	Note	\$ 000's	\$ 000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		47,733	51,351
Payments to suppliers and employees		(31,461)	(39,340)
Interest received		135	169
Finance costs		(7,647)	(7,387)
Income tax paid		(2,268)	(194)
Net cash (used in) / provided by operating activities	20(b)	6,492	4,599
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(147)	(308)
Payments for IT Development		(10)	(27)
Proceeds (payment to)/ from client receivables		(17,990)	(8,231)
Proceeds (payment to)/ from client receivables – 1 st Cash		(34,912)	-
Proceeds (payment to)/ from equipment lease receivables		(9,611)	-
Sale of Investment		-	1,800
Payment for subsidiary, net of cash acquired		(2,750)	-
Net cash (used in) / provided by investing activities		(65,420)	(6,766)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		13,168	693
Cost of capital raising		(480)	(27)
Proceeds from borrowings	20(c)	99,496	14,282
Payments of borrowings	20(c)	(50,000)	(11,817)
Dividends paid to Company's shareholders		(2,505)	(1,315)
Net cash (used in) / provided by financing activities		59,679	1,816
Net increase/(decrease) in cash held		751	(351)
Cash at the beginning of the financial year		14,927	15,278
Cash at the end of the financial year	20(a)	15,678	14,927

The accompanying notes to the financial statements are included on pages 26-62

Notes to the Financial Statements for the Year Ended 30 June 2018

NOTE 1 Significant accounting policies

These consolidated financial statements and notes represent those of CML Group Limited and controlled entities ("Group"). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. CML Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Group's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue on 20th September 2018 by the directors of the Company.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for profit entity for financial reporting purposes under Australian Accounting Standards. Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated. Except for cash-flow information the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current asset, financial assets and financial liabilities.

Going Concern

The financial report has been prepared on a going concern basis.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Parent entity as at 30 June 2018 and the results of all subsidiaries for the year then ended. The Parent entity and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. A list of controlled entities is contained in Note 24 to the financial statement.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

(b) Revenue

Revenue is measured at a fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The group recognises revenue for the employment solutions including labour sourcing and project management services when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities.

The Group recognises revenues for the finance revenue stream as revenue earned and generated within the financial year, irrespective of invoice date. To clarify, any requests from customers received post 30 June which relate to services performed prior to 30 June are recognised as transactions occurring within the financial year.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

All Australian revenue is stated net of the amount of goods and services tax (GST).

(c) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

(c) Income tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

For finance leases the lease value, plus future interest cost is recognised as a liability on the statement of financial position, split between current and amounts due after more than one year. Repayments made for finance leases are shown on the statement of financial position as a reduction in liability. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

(e) Financial instruments

Classification

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss

Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in the profit and loss of the current period. Fair values of listed investments are based on closing bid prices at the reporting date.

Held-to-maturity investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Available-for-sale

Available-for-sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit and loss.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities 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 reporting date.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that are able to be converted to share capital at the option of the note holder, and the number of shares to be issued will not vary with changes in their fair value.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional basis.

After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

(f) Impairment of financial instruments

Impairment of financial assets

Financial assets are tested for impairment at least annually to establish whether there is any objective evidence for impairment.

For loans and receivables or held-to-maturity investments carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

(f) Impairment of financial instruments (continued)

For available-for-sale financial assets carried at cost, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

For available-for-sale financial assets carried at fair value through other comprehensive income, the impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss. If the asset is impaired, the cumulative loss is reclassified from equity to the profit or loss. For equity investments, the impairment loss is not reversed through profit or loss. For debt investments, the impairment loss is reversed through profit or loss if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment losses was recognised in profit or loss.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Intangibles

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Trademarks

Trademarks recognised by the Group have an indefinite useful life and are not amortised. The directors believe the useful life is indefinite based on the name acquired being synonymous with the business activity acquired and which is the main business of the Group.

Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note (g).

Customer Relationships

Customer Relations is carried at fair value at the date of acquisition less accumulated amortisation. The directors believe the useful life of customer relationships acquired for Cashflow Advantage and 180 Group is 2 years.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

Software in relation to IT development:

Software in relation to IT development is carried at cost less accumulated amortisation.

Software in relation to IT development is reported at cost value less GST and is amortised over its estimated useful economic life. The useful life of software varies depending on what the assets are and ranges from 18 months, being 66.67% amortisation, through to 5 years, being 20% amortisation.

(i) Cash and cash equivalents

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

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired and objective evidence of an impairment loss. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in comprehensive income.

(k) Finance lease receivables – as lessor

The Group has recognised loans secured against finance lease equipment. Equipment is owned by the customers and there is no residual or lump sum amounts at the end of the loan agreement. The Group recognises principal and interest receivable over the term of the loan at the beginning of the loan and the principal and interest is amortised according to each loan schedule as scheduled repayments are received.

(l) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on a diminishing balance or straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. Leasehold improvements are depreciated over the shorter of either the expired period of the lease or the estimated useful lives of the improvements. The following estimated useful lives are used in the calculation of depreciation:-

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

(k) Finance lease receivables (continued)

	Depreciation rate
Motor vehicles	20-25%
Office equipment	20-40%
Leasehold Improvements	20-40%
Software	30-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowing costs

Borrowing costs are recognised in the period in which they are incurred.

(o) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period.

(iii) Share-based payments

Share-based compensation benefits may be provided to directors and employees.

The fair value of shares or options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares/options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

(p) Earnings per share

(i) Basic earnings per share.

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity, other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(r) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(s) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191. Accordingly, amounts in the financial statements and directors' report have been rounded off where appropriate to the nearest \$1,000, unless otherwise specified.

(t) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

(i) Impairment – general

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The discounted cash flow method has been used to arrive at the recoverable amount of goodwill in the financial statements. No impairment has been recognised in respect of goodwill at the end of the reporting period as the recoverable amount exceeds the carrying value.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

Key judgments

Provision for impairment of receivables

Included in trade receivables at the end of the reporting period is an amount receivable from sales made to a variety of companies during the current financial year amounting to \$5.016,000 that is considered to be impaired.

(u) Reclassification in Cashflow Statement

Payments to and from debtor finance and equipment finance clients (funds advanced to clients) have been reclassified from operating activities to investing activities within the consolidated statement of cash flows, in order to reflect a more accurate picture of the business activities of the Group.

(v) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2018).

The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard for the financial year ending 30 June 2019 and the impact of its adoption is expected to be minimal on the Group.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 1 Significant accounting policies (continued)

AASB 15: Revenue from Contracts with Customers (applicable for annual reporting periods commencing on or after 1 January 2018).

The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfill a contract with a customer. The Group will adopt this standard from for the financial year ending 30 June 2019 and the impact of its adoption is expected to be minimal on the consolidated entity.

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Although the directors anticipate that the adoption of AASB 16 will have an impact on the Group's accounting for its operating leases, the impact is yet to be assessed.

CML Group

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 2 Revenue

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Revenue from continuing operations		
Services		
Finance	34,421	26,240
Equipment Finance	1,040	-
Other services	12,753	13,594
Other revenue		
Interest received – other entities	135	173
Loss on early redemption – Corporate Bond	(1,600)	-
Total revenue	<u>46,749</u>	<u>40,007</u>

NOTE 3 Expenses

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Profit/(Loss) before income tax from continuing operations includes the following specific expenses:-		
Depreciation and amortisation	219	165
Amortisation – Customer Relationship	1,042	1,358
Finance Costs Expensed	9,694	7,993
Bad and doubtful debts	1,590	829
Rental expenses on operating leases	610	614
Employee superannuation expense	707	814

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 4 Segment Information

Identification of reportable segments

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:-

- The products sold and/or services provided by the segment;
- The type or class of customer for the products or services;
- Any external regulatory requirements

Types of products and services by segment

i. Finance

Refers to 'invoice finance' or 'receivables finance' which provides an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from the customer (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume.

ii. Equipment Finance

Refers to equipment finance which provides loans secured against equipment.

iii. Other Services

Refers to employment solutions including labour sourcing and project management.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief and operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions

There are no Inter-segment transactions.

(c) Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

(d) Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(e) Unallocated items

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:-

- Income tax expense
- Deferred tax assets and liabilities

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 4 Segment Information (continued)

(f) Comparative information

	Finance \$'000's	Equipment Finance \$'000's	Other services \$'000's	Corporate \$'000's	Total \$'000's
<i>Year ended 30 June 2018</i>					
Invoice Purchased	1,328,077				
Total segment revenue	34,421	1,040	12,888	(1,600)	46,749
Adjusted profit/(loss) before income tax	18,105	251	874	(1,636)	17,594
	Finance \$'000's	Equipment Finance \$'000's	Other services \$'000's	Corporate \$'000's	Total \$'000's
<i>Year ended 30 June 2017</i>					
Invoice Purchased	1,000,699				
Total segment revenue	25,999	-	14,008	-	40,007
Adjusted profit/(loss) before income tax	13,383	-	1,261	(1,539)	13,106

The Board assesses the performance of the operating segments based on a measure of adjusted profit/(loss) before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/(losses) on financial instruments. Interest income and expenditure are also not allocated to segments.

A reconciliation of adjusted profit/(loss) before income tax to operating profit before income tax is provided as follows:-

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Adjusted profit before income tax	17,594	13,105
Depreciation and amortisation	(219)	(165)
Amortisation – Customer Relations	(1,042)	(1,358)
Interest costs	(9,694)	(7,993)
Interest income	135	173
Loss from early redemption of bonds	(1,600)	-
Redundancy cost	(129)	-
Operating Profit (Loss) before income tax from continuing operations	5,045	3,762

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 4 Segment Information (continued)

Segment assets

The nature of the business is such that assets are used across all segments therefore cannot be identified as relating to a specific segment. The net book value of assets is \$261M (2017: \$161M) per the consolidated statement of financial position. All assets are based in Australia.

Segment liabilities

The nature of the business is such that liabilities cannot be identified as relating to a specific segment. The net value of liabilities is \$220M (2017: \$145M) per the consolidated statement of financial position.

Major customers

The Group has a number of customers to which it provides both products and services. Most significant single external customer accounts for 9.16% of external revenue (2017: 11.3%). The next most significant client accounts for 8.92% (2017: 10.3%) of external revenue. All revenue attributable to external customers was generated from Australia for the year ended 30 June 2018.

NOTE 5 Income Tax Expense

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
(a) The components of tax benefit (expense) comprise:		
Current tax	(2,289)	(1,736)
Deferred tax	430	463
	<u>(1,859)</u>	<u>(1,273)</u>
(b) The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to income tax as follows:		
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2017: 30%)	(1,513)	(1,129)
Add tax effect of:		
Accumulated benefits from prior year acquisitions	-	382
Sale of Lester business	-	(369)
Other non-allowable items	(346)	(716)
Applying carried forward tax losses	-	559
Income tax benefit (expense)	<u>(1,859)</u>	<u>(1,273)</u>
The applicable weighted average tax rates are as follows:	36.8%	33.8%
(c) Deferred taxation		
The balance comprises temporary differences attributable to :-		
Provision for doubtful debts	858	471
Provision for employee entitlements	181	125
Accrued Expenditure	549	645
Accrued Income	(56)	(55)
Other	276	135
Total deferred tax assets	<u>1,808</u>	<u>1,321</u>
(d) Income Tax Payable	<u>1,614</u>	<u>1,536</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 6 Cash and cash equivalents

Consolidated Group

	2018 \$ 000's	2017 \$ 000's
Cash at bank and in hand	15,678	14,927
	<u>15,678</u>	<u>14,927</u>

Reconciliation of cash

Cash at the end of the financial year as shown in the consolidated statement of financial position and statement of cash flow is:-

Cash and cash equivalents	15,678	14,927
	<u>15,678</u>	<u>14,927</u>

NOTE 7 Trade receivables

Consolidated Group

	2018 \$ 000's	2017 \$ 000's
CURRENT:		
Trade receivables	2,787	3,272
Trade receivables – Debtor finance	216,331	128,454
Provision for impairment (a)	(5,016)	(1,571)
	<u>214,102</u>	<u>130,155</u>

Impaired trade receivables

As at 30 June 2018 current trade receivables of the Group of \$5,016,000 (2017: \$1,571,000) were impaired.

(a) The aging of these receivables is as follows;

31-60 days	-	-
Over 60 days	5,016	1,571
	<u>5,016</u>	<u>1,571</u>

Movements in the provision for impairment of receivables are as follows:-

As at 1 July	1,571	1,002
Provision for impairment during the year	1,590	1,483
Provision for impairment on acquisition	3,001	-
Receivables written off during the year as uncollectable	(1,146)	(764)
Provision for impairment reversed during the year	-	(150)
As at 30 June	<u>5,016</u>	<u>1,571</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 7 Trade and other receivables (continued)

(b) Past due but not impaired

As at 30 June 2018, trade receivables of \$127,891,000 (2017: \$71,866,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. CML Group's invoice finance division has a 90 days end of month recourse period and funds advanced against debtors in this aged category are clawed-back from the client through a reduction in the client's funding availability. CML Group continues the receivables management service for aged debt on behalf of its clients, but the actual funding exposure is minimal. Trade credit insurance is also in place to reduce the Group's exposure to impairment risk, with the benefit of insurance claims passed onto clients.

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Less than 30 days	19,289	44,887
31-60 days	6,040	11,442
Greater than 60 days	16,808	14,332
	<u>42,137</u>	<u>70,661</u>

(c) Interest Rate Risk

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in Note 21.

(d) Credit Terms

Credit terms which apply to trade customers range from 7 day terms to 75 day terms. Most terms are 30 days net.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 21 for further information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

NOTE 8 Finance lease receivables

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
CURRENT:		
Finance lease receivables	4,082	-
Provision for impairment	(58)	-
Unamortised loan brokerage fees	109	-
Unamortised loan transaction costs	(120)	-
Unamortised interest receivable	(1,697)	-
Total	<u>2,316</u>	<u>-</u>
NON-CURRENT:		
Finance lease receivables	9,691	-
Unamortised loan brokerage fees	255	-
Unamortised loan transaction costs	(285)	-
Unamortised interest receivable	(2,423)	-
Total	<u>7,238</u>	<u>-</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 9 Other Assets

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
CURRENT:		
Prepayments	1,697	1,966
Accrued Income	187	183
Advances	16	16
Deposits Paid	404	18
Total	2,304	2,183

NOTE 10 Plant & Equipment

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Leased motor vehicles		
At cost	46	79
Accumulated depreciation	(15)	(37)
	31	42
Software & Office equipment		
At cost	1,676	215
Accumulated depreciation	(1,449)	(74)
	227	141
Leasehold Improvements		
At cost	567	286
Accumulated depreciation	(382)	(102)
	185	184
Total Plant & Equipment	443	367

	Consolidated Group			
	Leased Motor Vehicle	Computer & Office Equipment	Leasehold Improvements	Total
	\$000s	\$000s	\$000s	\$000s
2018 Consolidated:-				
Balance at the beginning of the financial year	42	141	184	367
Additions	-	126	21	147
Acquired on business combination	-	62	31	93
Depreciation	(11)	(102)	(51)	(164)
Carrying amount at the end of the financial year	31	227	185	443
2017 Consolidated:-				
Balance at the beginning of the financial year	46	108	7	161
Additions	47	107	217	371
Acquired on business combination	-	-	-	-
Disposal or classified as held for sale	(34)	-	-	(34)
Depreciation	(17)	(74)	(40)	(131)
Carrying amount at the end of the financial year	42	141	184	367

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 11 Intangible Assets

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Goodwill:-		
Opening net book balance	9,252	13,146
Acquisitions	5,288	-
Disposal or classified as held for sale	-	(1,720)
Adjustment to prior year acquisition during the measurement period	-	(2,174)
Net book value	14,540	9,252
Trademarks:-		
Opening net book balance	2,125	2,125
Net book value	2,125	2,125
Customer Relationships:-		
Opening net book balance	1,042	-
Adjustment to prior year acquisition during the measurement period	-	2,400
Amortisation	(1,042)	(1,358)
Net book value	-	1,042
Software Development:-		
Opening net book balance	92	99
Capitalised during the year	15	28
Disposals or classified as held for sale	-	(1)
Amortisation	(55)	(34)
Net book value	52	92
Total	16,717	12,511

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 11 Intangible Assets (Continued)

Intangible assets have been tested for impairment at 30 June 2018 resulting in no impairment loss (2017: \$nil).

Intangible assets, other than goodwill and trademarks, have finite useful lives ranging from 18 months to 5 years. Amortisation is calculated according to the estimated remaining economic useful life of the asset.

Goodwill and trademarks have an indefinite life.

Goodwill, customer relationships and trademarks are comprised of;

- The acquisition of Zenith Management Services Pty Ltd in Financial Year 2010 with goodwill amounting to \$2,416,000;
- The acquisition of an independent contractors Agreement from Lex Brown, with goodwill of \$175,000;
- The acquisition of Cash Flow Finance Australia Pty Ltd in Financial Year 2015 with goodwill amounting to \$2,125,000;
- The acquisition of Cashflow Advantage Pty Ltd in Financial Year 2016 amounting to \$2,727,000 (\$2,501,000 preliminary accounting adjusted for fair value adjustment to trade receivables acquired less associated deferred tax of \$276,000) less \$700,000 customer relations identified from PPA exercise; and
- The acquisition of 180 Group Pty Ltd in Financial Year 2016 with goodwill amounting to \$6,334,000 less \$1,700,000 customer relationships identified from PPA exercise.
- The acquisition of 1st Cash Pty Ltd in Financial Year 2018 amounting to goodwill of \$5,289,000(preliminary accounting).

(a) Impairment tests for goodwill and trademark

The recoverable amount of goodwill and trademarks are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period. The growth rate does not exceed the long-term average growth rate for the business in which the business operates.

The growth rate used is considered reasonable based on industry trends. The value in use calculations are on the basis of budgeted results for the 2018 and actual results for the 2018 financial years.

Growth Rate		Discount Rate	
2018	2017	2018	2017
%	%	%	%
2.5	2.5	7.8	7.8

(b) Impairment Charge

Intangible assets with indefinite useful life have been tested for impairment at 30 June 2018 resulting in no impairment charge. No indicators of impairment were identified for finite life intangible assets.

(c) Impact of possible changes in key assumptions

If there was no budgeted growth rate, the Group would have not recognised an impairment of goodwill.

If the estimated cost of capital used in determining the discount rate for goodwill and trademarks had been 10% higher than managements' estimates of 8.5%, the Group would not have to recognise an impairment of goodwill and trademark.

CML Group

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 12 Trade and Other Payables

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Trade payables		
CURRENT:		
Unsecured liabilities		
Trade payables	1,385	1,667
Trade payables – Debtor finance	86,056	52,077
Sundry payables and accrued expenses	2,151	1,869
	<u>89,592</u>	<u>55,613</u>

NOTE 13 Other Liabilities

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
CURRENT:		
Unsecured liabilities	52	54
Lease Incentive Liability	16	39
	<u>68</u>	<u>93</u>
NON-CURRENT:		
Lease Incentive Liability	114	122
	<u>114</u>	<u>122</u>

Lease Incentive Liability relates to the rental of the Miller Street, North Sydney, NSW and Queen Street, Brisbane, QLD properties.

CML Group

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 14 Borrowings

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
CURRENT:		
Unsecured		
Receivables Financing Facility	82,798	2,849
Unsecured Loans	1,475	11,459
	<u>84,273</u>	<u>14,308</u>
NON-CURRENT:		
<i>Unsecured</i>		
Unsecured Convertible Notes	-	9,910
Unsecured Corporate Bond	19,547	-
	<u>19,547</u>	<u>9,910</u>
<i>Secured</i>		
Senior Secured Corporate Bond	24,619	63,049
Total Non-Current	<u>44,166</u>	<u>72,959</u>
Total	<u>128,439</u>	<u>87,267</u>

Receivable Facility

In April 2018, CML Group's drawdown facility with institutional bank increased from \$40m to \$120m at an average 4.5% interest rate. The facility is reviewed annually. The used portion of the facility amounted to \$83m and unused portion of \$37m at 30 June 2018.

Unsecured Loans and Unsecured Corporate Bond

In August 2017, CML Group raised \$10.1m through debenture with fixed rate of 8.75% p.a. interest rate. The debenture was used to repay \$10.0m unsecured loan with First Samuel Limited in October 2017. The Group also repaid the debenture in May 2018 when \$20m Unsecured Corporate Bond was raised. The Unsecured Corporate Bond has fixed interest rate of 7.95% p.a. payable quarterly in arrears. The Bond has a maturity date of 30 May 2022.

Convertible Notes

The Group converted 10.4m Convertible Notes into 41.5m ordinary shares on 5th October 2017 at 25 cents per share.

Secured Corporate Bond

In May 2015, CML Group raised \$25.0m by issuing a Senior Secured Corporate Bond at a floating coupon rate of 5.4% per annum plus the 30 day Bank Bill Swap Rate, payable monthly in arrears to May 2020 then steps up to 7% plus the 30 day Bank Bill Swap Rate until May 2021 for a six-year term, maturing in May 2021. The Senior Secured Corporate Bond is secured by floating charge over revolving assets of the Group (including book debts) and fixed charge over all other collateral (all other assets of the Group).

In May 2018, \$40m FIIG Corporate Bond #2 at fixed rate of 8% was repaid in full through partial utilisation of the \$120m Receivable Financing Facility.

Risk exposure

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 21.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 15 Provision for employee benefits

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
CURRENT:		
Employee benefits	538	364
Reconciliation of movement in the liability is recognised in the statement of financial position as follows:-		
Balance at the beginning of the financial year	364	415
(Decrease)/increase in provision	174	(51)
Balance at end of the financial year	538	364
NON-CURRENT:		
Employee benefits	67	54
Reconciliation of movement in the liability is recognised in the statement of financial position as follows:-		
Balance at the beginning of the financial year	54	71
(Decrease)/increase in provision	13	(17)
Balance at end of the financial year	67	54

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1(o)(i) and (ii) of the financial statements.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 16 Contributed Equity

	Consolidated Group			
	2018	2017	2018	2017
	No.	No.	\$ 000's	\$ 000's
Balance at beginning of financial year	133,052,955	130,100,023	16,711	16,045
Shares issued or under issue during the year:-				
Ordinary shares @ 50 cents from Share Placement	26,000,000	-	13,000	-
Ordinary shares @ 25 cents from conversion of Convertible Note	41,548,524	-	10,387	-
Share issue from Dividend Reinvestment Plan	440,469	2,952,932	169	693
Less: transaction costs arising from share issues	-	-	(480)	(27)
Balance at end of financial year	201,041,948	133,052,955	39,787	16,711

Capital risk management

The Group and the parent entity's objective when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's debt and capital includes ordinary share capital, convertible notes, corporate bonds and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There are no externally imposed capital requirements. This strategy is to ensure that the Group's gearing ratio remains under 90%. The gearing ratios for the year ended 30 June 2018 and 30 June 2017 are as follows:

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Gearing Ratios		
Total borrowings	128,439	87,267
Less Cash and cash equivalents	(15,678)	(14,927)
Net debt	112,761	72,340
Total equity	40,174	16,415
Total capital	152,935	88,755
Gearing ratio	73.73%	81.51%

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 17 Reserves and Accumulated Losses

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Reserves and Accumulated Losses		
Accumulated Losses	(54)	(735)
General Reserves	441	439
	<u>387</u>	<u>296</u>
Accumulated Losses		
Balance at the beginning of year	(735)	(1,949)
Net profit attributable to members of <i>CML Group Pty Ltd</i>	3,186	2,529
Total available for appropriation	<u>2,451</u>	<u>580</u>
Dividends paid	(2,505)	(1,315)
Balance at end of year	<u>(54)</u>	<u>(735)</u>

NOTE 18 Earnings per share

	Consolidated Group	
	2018	2017
	Cents per Share	Cents per Share
Basic earnings per share		
Continuing operations	1.85	1.89
Discontinued operations	-	0.03
Continuing operations and discontinued operations	<u>1.85</u>	<u>1.92</u>
Diluted earnings per share		
Continuing operations	1.75	1.78
Discontinued operations	-	0.02
Continuing operations and discontinued operations	<u>1.75</u>	<u>1.80</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 18 Earnings per share (Continued)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:-

	Consolidated Group	
	2018	2017
	\$000's	\$000's
Earnings (i)		
Continuing operations	3,186	2,489
Discontinued operations	-	40
Continuing and discontinued operations	3,186	2,529
Interest on convertible notes	-	654
Earnings used in calculating of dilutive EPS	3,186	3,183
	No.	No.
Weighted average number of ordinary shares	171,849,227	131,934,848
Weighted average number of dilutive convertible notes on issue	10,000,000	44,452,634
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	181,849,227	176,387,482

(i) Earnings used in the calculation of basic earnings per share are net profit after tax.

NOTE 19 Dividends

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
Fully Franked Interim Dividend – 0.75 cents (2017: 0.50 cents)	1,507	664
Fully Franked Proposed Final Dividend – 0.75 cents (2017: 0.75 cents)	1,508	998
Total	3,015	1,662
Franking Credits	5,114	3,718

The above amounts represent the balance of the franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and franking debits arising from the payment of dividends recognised as a liability at the reporting date.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 20 Cash flow information

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
(a) <i>Reconciliation of cash</i>		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flow is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	15,678	14,927
Bank overdraft	-	-
	<u>15,678</u>	<u>14,927</u>
(b) <i>Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities</i>		
Profit/(loss) from ordinary activities after related income tax	3,187	2,529
Depreciation and amortisation of non-current assets	1,260	1,523
Loss on remeasurement to fair value less cost to sell	-	-
Trade receivables provision for Impairment	-	-
Profit/(loss) on disposal of plant and equipment	-	-
Changes in assets and liability, net of effect of purchases of subsidiaries;		
Decrease/(increase) in receivables	986	3,653
(Increase)/ decrease in deferred tax assets	(487)	234
Decrease/(increase) in provisions	(69)	(610)
Increase/(decrease) in trade and other payables	(357)	(5,713)
Increase/(decrease) in other liabilities	(32)	168
Increase/(decrease) in other current assets	(121)	1,966
Increase/(decrease) in borrowings	2,047	606
Increase/(decrease) in Income tax payable	78	469
Remeasurement of goodwill on acquisition	-	(226)
Net cash from operating activities	<u>6,492</u>	<u>4,599</u>

(c)

	Non-cash changes				
	2017	Financing cash flows	Equity component of convertible notes	Other changes	2018
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Unsecured Convertible Notes	9,910	-	(10,387)	477	-
Receivables Financing Facility	2,849	79,949	-	-	82,798
Unsecured Loans	11,459	(10,000)	-	16	1,475
Senior Secured Bond	63,049	(40,000)	-	1,570	24,619
Unsecured corporate Bond	-	19,547	-	-	19,547
	<u>87,267</u>	<u>49,496</u>	<u>(10,387)</u>	<u>2,063</u>	<u>128,439</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 21 Financial Risk Management

The Risk Committee has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The risk management committee monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to financing risk and interest rate risk.

The Group's overall risk management strategy is to ensure that financial targets are met, while minimising potential adverse effects on financial performance relating to current and future cash flow requirements.

The Group's financial instruments consist mainly of deposit with banks, accounts receivable, investments, and trade and other payables and borrowings.

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
The total for each category of financial instruments, excluding assets held for sale, measured in accordance with accounting policies to these financial statements, are as follows:		
<i>Financial Assets</i>		
<i>Cash and cash equivalents</i>	15,678	14,927
<i>Trade and other receivables</i>	214,102	130,152
<i>Finance lease receivables</i>	9,554	-
<i>Other current assets</i>	404	18
	<u>239,738</u>	<u>145,097</u>
<i>Financial liabilities</i>		
<i>Trade and other payables</i>	89,592	55,613
<i>Borrowings</i>	128,439	87,267
	<u>218,031</u>	<u>142,880</u>

(a) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

All of Group's debts are on floating rate except Unsecured Corporate Bond which has a fixed rate. Group's debts are primarily used for finance division and equipment finance division. Equipment Finance division has no interest rate risk as it uses Unsecured Corporate Bond for lending. Interest rate risk for the finance division can be mitigated by passing on the increase in interest rate to the customers.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 21 Financial Risk Management (Continued)

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the interest rate that management considers to be reasonably possible. These sensitivities assume that the movement in interest rate is independent of other variables.

<i>Sensitivity Analysis</i>	2018	2017
+/- 2% in interest rate	\$000's	\$000's
Equity	+/- 1,284	+/- 181
Profit	+/- 1,835	+/- 258

For assets and liabilities, the net fair value approximates their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

(b) Credit risk

Credit risk arises predominantly from receivables from customers and also from cash and cash equivalents, and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'AA' are accepted. If customers are independently rated, these ratings are used. If there is no independent rating for customers, the Group's risk controls assess the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group. The compliance with credit limits by customers is regularly monitored by line management.

The maximum exposure to credit risk at the reporting date, excluding any amounts recoverable under the Group's credit insurance which is not able to be reliably estimated, is the carrying amount of the financial assets summarised in the following table. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparties default rates.

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
<i>Trade receivables</i>		
Counterparties with external credit rating (Moody's)		
AAA Federal government departments and instrumentalities	10,077	4,263
Counterparties without external credit rating	207,967	127,463
Total trade receivables	218,044	131,726
<i>Cash at bank and short-term bank deposits</i>		
AA-	15,678	14,927

To further minimise the credit risk for outstanding receivables from customers, the Group ensures that:-

- 50% of ledger purchased from new customers are checked and validated with the end debtors.
- 20% of new invoices purchased from existing customers are checked and validated with the end debtors.
- Collections team chases for overdue invoices to make sure invoices are paid on time.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 21 Financial Risk Management (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group manages this risk through the following mechanisms:

- Preparing forward looking cash flow analysis in relation to its operational and financing activities;
- Ensuring that adequate capital raising activities are undertaken;
- Maintaining a reputable credit profile; and
- Investing surplus cash only with major financial institutions.

Please refer to Note 14 for more details on borrowings.

The following tables reflect undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments:

	0 to 12 Months \$ 000's	1 to 5 years \$ 000's	More than 5 years \$ 000's	Total contract- ual cash flows \$ 000's	Carrying value \$ 000's
<i>As at 30 June 2018</i>					
Trade and other payables	89,592	-	-	-	89,592
Borrowings	84,273	44,166	-	-	128,439
Total financial liabilities	173,865	44,166	-	-	218,031

	0 to 12 Months \$ 000's	1 to 5 years \$ 000's	More than 5 years \$ 000's	Total contract- ual cash flows \$ 000's	Carrying value \$ 000's
<i>As at 30 June 2017</i>					
Trade and other payables	55,613	-	-	-	55,613
Finance leases	-	-	-	-	-
Borrowings	14,307	72,959	-	-	87,267
Total financial liabilities	69,920	72,959	-	-	142,880

Fair value estimation

The carrying amounts of trade receivables, payables and current borrowings are assumed to approximate their fair values due to their short-term nature. The fair value of non-current borrowings approximates the carrying amount, as the impact of any discounting is not significant.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 22 Contingent liabilities

There are 3 rental guarantees of \$263,000 relating to the property at Miler Street, Queen Street and Plummer Street. The guarantee amount is payable if lease terms regarding the property are broken.

NOTE 23 Commitments

(a) Lease commitments – Group as lessee

Non-cancellable operating leases

The property lease at Brisbane expires on 31 October 2021. It is a 5 year lease with rent payable monthly in advance. Rental provisions with the lease agreement require the minimum lease payments shall increase by 3.5% per annum.

The property lease at North Sydney expires on 31 December 2022. It is a 5 year lease with rent payable monthly in advance. Rental provisions with the lease agreement require the minimum lease payments shall increase by 4% per annum.

The property lease at Melbourne expires on 30 May 2021. It is a 3 year lease with rent repayable monthly in advance. Rental provisions with the lease agreement require the minimum lease payments shall increase by 3.5% per annum.

The property lease at Adelaide expires on 19 June 2019. It is a 1 year lease with rent repayable monthly in advance.

The property lease at Perth expires on 28 February 2019. It is a 2 year lease with rent repayable monthly in advance. Rental provisions with the lease agreement require the minimum lease payments shall increase by 3.0% per annum.

(b) Lease commitments – Group as lessee

Commitments in relation to finance leases are payable as follows:-

	2018 \$ 000's	2017 \$ 000's
Non-cancellable operating leases contracted but not capitalised in the financial statements		
- Payable not later than one year	433	323
- Longer than 1 year and not longer than 5 years	1,154	1,625
- Longer than 5 years	-	107
	<u>1,587</u>	<u>2,055</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 24 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(a)

		2018	2017
	Country of Incorporation	%	%
Ultimate Parent Entity			
CML Group Limited	Australia		
Controlled Entities			
CMLPayroll Pty Limited	Australia	100%	100%
Zenith Management Services Group Pty Limited	Australia	100%	100%
Lester Australia Limited	UK	100%	100%
The Lester Partnership Pty Limited	Australia	-	100%
Lester Payroll Services Pty Limited	Australia	100%	100%
Lester Associates Good Migration Pty Limited	Australia	100%	100%
Lester Associates Business Services Pty Limited	Australia	100%	100%
LesterPlus Pty Limited	Australia	100%	100%
Cashflow Finance Australia Pty Limited	Australia	100%	100%
Cashflow Advantage Pty Limited	Australia	100%	100%
180 Group Pty Limited	Australia	100%	100%
180 Capital Funding Pty Limited	Australia	100%	100%
1ST Cash Pty Limited*	Australia	100%	-

*1ST Cash Pty Limited was acquired on 26th of February 2018.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 24 Subsidiaries (Continued)

Deed of Cross Guarantee

A deed of cross guarantee between CMLPayroll Pty Ltd and CML Group Limited was entered into during the 2015 financial year and relief was obtained from preparing financial statements for CMLPayroll Pty Ltd under ASIC Class Order 2016/785. Under the deed, CML Group Limited and CML Payroll Pty Ltd guarantee the debts of each other and are the members of the closed group. CML Payroll Pty Ltd is the only party to the deed of cross guarantee. The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the closed group is set out below:

	Closed Group	
	2018	2017
	\$000	\$000
Financial information in relation to:		
(i) Statement of profit or loss and other comprehensive income:		
Profit (loss) before income tax	(6,998)	(2,885)
Income tax credit	1,754	1,490
Profit (loss) after income tax	(5,244)	(1,395)
Profit (loss) attributable to members of the parent entity	(5,244)	(1,395)
(ii) Statement of financial position:		
CURRENT ASSETS		
Cash and cash equivalents	645	2,261
Trade and other receivables	123,027	75,117
Other current assets	766	487
TOTAL CURRENT ASSETS	124,438	77,865
NON-CURRENT ASSETS		
Property, plant and equipment	80	42
Intangible assets	19,571	15,370
Deferred tax assets	1,760	1,273
TOTAL NON-CURRENT ASSETS	21,411	16,685
TOTAL ASSETS	145,849	94,550
CURRENT LIABILITIES		
Trade and other payables	1,146	2,402
Tax liabilities	(6,066)	(2,157)
Borrowings	84,273	14,308
Other liability	41	75
Short-term provisions	41	64
TOTAL CURRENT LIABILITIES	79,435	14,692

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 24 Subsidiaries (Continued)

	Closed Group	
	2018	2017
	\$000	\$000
NON-CURRENT LIABILITIES		
Long-term borrowings	44,166	72,959
Long-term provisions	2	1
Other liabilities	19	-
TOTAL NON-CURRENT LIABILITIES	44,187	72,960
TOTAL LIABILITIES	123,622	87,652
NET ASSETS	22,227	6,898
EQUITY		
Issued capital	39,783	16,711
Reserves	441	439
Retained earnings	(17,997)	(10,252)
	22,227	6,898

NOTE 25 Parent Entity Disclosures

	Consolidated Group	
	2018	2017
	\$ 000's	\$ 000's
The individual financial statements for the parent entity show the following aggregate amounts:-		
<i>Statement of Financial Position</i>		
Current assets	2,137	3,354
Non-current assets	144,294	91,697
Total assets	146,431	95,051
Current liabilities	79,559	14,713
Non-current liabilities	44,187	72,960
Total liabilities	123,746	87,673
Net Assets	22,685	7,378
Shareholders' equity		
Contributed equity	39,783	16,711
Retained losses	(17,098)	(9,333)
Total equity	22,685	7,378
Net Loss for the year after tax	(7,765)	(672)
Total Comprehensive Loss	(7,765)	(672)

The parent entity and CMLPayroll Pty Ltd are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 26 Business Combinations

On 26 February 2018, CML Group Limited acquired 100% of the ordinary shares of 1stCash Pty Ltd for the total consideration of \$38m in cash, which includes Goodwill, plus loan book funding of circa \$35m. The acquired business contributed revenue of \$3,107,826 and profit after tax of \$597,950 for the period 26 February 2018 to 30 June 2018 to the Group.

Details of the initial accounting of the acquisitions are as follows:

	Fair Value \$'000s
Trade receivables (net funds employed)	31,350
Loan Receivables	4,479
Provisions for doubtful debt	(3,001)
Plant and equipment	97
Equity loans (to fund trade receivables)	(35,172)
Employee liabilities	(255)
Other Liabilities	(37)
Net tangible assets assumed	<u>(2,539)</u>
Goodwill / other identifiable assets to be allocated prior to the completion of acquisition accounting	5,289
Acquisition-date fair value of the total consideration transferred	<u>2,750</u>
Representing:	
Cash paid to vendor	<u>2,750</u>
Acquisition costs expensed to profit and loss	<u>15</u>
Net cash used	<u>2,765</u>

Due to the timing of the acquisitions, provisional amounts have been used in accounting for the business combinations. Provisional amounts recognised will be adjusted retrospectively during the measurement period which will end as soon as possible and not more than one year from the acquisition date, the maximum allowed under the standard.

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 27 Related Party Disclosures

- (a) *Parent entity*
The Parent entity and ultimate parent entity is CML Group Limited.
- (b) *Controlled entities and joint venture entities*
Controlled entities and joint venture entities are detailed in Note 24 to the financial statements
- (c) *Key management personnel*
Details of key management personnel, their positions, remuneration and number of shares held are detailed in the Remuneration Report within the Directors' Report.
- (d) *Transaction with related parties*
There were no transaction with related parties during the year.

The Company entered into an unsecured loan agreement with Mr. Daniel Riley to provide \$250,000 for the options issued on 17th of March 2017 at 5.65%. Loan and interest is repayable at earlier of when the options are exercised or on options expiry date 9th March 2022. The loan is accounted for as a share based payment in accordance with accounting standards. The fair value of the options at grant date was nil.

NOTE 28 Remuneration of Auditors

	Consolidated Group	
	2018	2017
During the year the following fees were paid or payable for services provided by the auditors of the parent entity:-	\$	\$
Audit and review of the financial statements	114,327	118,536
Other services:		
Taxation and corporate secretarial services	-	-
	<u>114,327</u>	<u>118,536</u>

Notes to the Financial Statements for the year ended 30 June 2018

NOTE 29 Subsequent events

The Group has declared a Final Dividend of 0.75 cents per share, fully franked. Group has a Dividend Reinvestment Plan (DRP) in place, in which eligible shareholders may participate.

Except as disclosed above, there has been no other matter or circumstance, which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group

Notes to the Financial Statements for the year ended 30 June 2018

Directors' Declaration

In accordance with a resolution of the Directors of CML Group Limited the Directors of the Company declare that:

1. The financial statements and notes as set out on pages 21-62 are in accordance with the *Corporations Act 2001*; and
 - a. Comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financials Reporting Standards (IFRS); and
 - b. Give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated group.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

At the date of this Declaration, there are reasonable grounds to believe that the companies which are party to this Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they are, or may become, subject to be virtue of the Deed.



Daniel Riley

Managing Director

Sydney 20th September 2018

CML GROUP LIMITED
ABN 88 098 952 277

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CML GROUP LIMITED**

Report on the Audit of the Financial Report

We have audited the financial report of CML Group Limited (the "Company") and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

Opinion

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

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

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Recoverability of Trade Receivables <i>Refer to Note 7 Trade and other receivables</i>	
As at 30 June 2018 the Group had a provision for impairment of trade receivables of \$5.0 million. The assessment to determine the provision for impairment of trade receivables involved significant judgements by management about the recent sales experience, ageing of debtors, historical collection rates and specific factors relevant to the customer including recovery options.	Our procedures included, amongst others: <ul style="list-style-type: none">• Documenting and evaluating the design and operating effectiveness of controls in the assessment process for determining the recoverability of trade receivables, including the application of credit policies and monitoring of the adequacy of the provision for impairment of trade receivables;• Assessing management's methodology for determining the provision for impairment of trade receivables;• Assessing the completeness of clients identified as being subject to the provision for impairment of trade receivables;• Evaluating subsequent receipts of year end trade receivable balances;• Reviewing and challenging the significant judgements used by management in determining the provisions for impairment of trade receivables.

Acquisition Accounting
Refer to Note 11 Intangible Assets

During the 2018 financial year, the Group acquired 1st Cash Pty Ltd. The accounting for this business combination resulted in the recognition of goodwill of \$5.3 million.

Initial accounting has been reflected in the financial statements at 30 June 2018. The company will complete the purchase price allocation within 12 months of the acquisition date as per paragraph 45 of AASB 3 Business Combinations.

An independent valuation of the identifiable assets acquired will be required to complete the purchase price allocation.

It is due to the size of the acquisition and the estimation process involved in accounting for it that this is a key area of audit focus.

Our procedures included, amongst others:

- Documenting and evaluating the design and operating effectiveness of controls in respect to acquisition accounting;
- Examining the asset purchase agreement to identify intangible assets acquired based on our understanding of the business acquired;
- Reviewing and challenging the key assumptions used by management in the initial allocation of the purchase price, based on our understanding of the acquired business;
- Considering the adequacy of the financial report disclosures in Note 11 and confirming that the correct accounting treatment has been applied.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Chairperson's Report, Managing Director's Report, Directors' Report and Additional Information for publicly listed companies which was obtained as at the date of our audit report, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

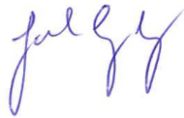
Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 19 of the Directors' Report for the year ended 30 June 2018. In our opinion, the Remuneration Report of CML Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of CML Group Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



JOHN GAVLJAK

Partner

20 September 2018



PITCHER PARTNERS

Sydney

Additional Information for Publicly Listed Companies

Statement of quoted securities as at 31 August 2018

- There are 1,837 shareholders holding a total of 201,041,948 ordinary fully paid shares on issue by the Company.
- The twenty largest shareholders between them hold 70.27% of the total issued shares on issue.
- Voting rights for ordinary shares are that on a show of hands each member present in person or by proxy or attorney or representative shall have one vote and upon a poll every member so present shall have one vote for every fully paid share held and for each partly paid share held shall have a fraction of a vote pro-rata to the amount paid up on each partly paid share relative to its issue price.

Distribution of quoted securities as at 31 August 2018

	Range of holding	No. of holders
	1 - 1,000	72
Ordinary fully paid shares	1,001 - 5,000	155
	5,001 - 10,000	304
There are 69 shareholders holding less than a marketable parcel.	10,001 - 100,000	515
	100,001 - and over	161
	Total holders	1,207

Substantial shareholdings as at 31 August 2018

Ordinary shareholder

	Total relevant interest notified	% of total voting rights
J P MORGAN NOMINEES AUSTRALIA LIMITED	45,101,222	22.43
NATIONAL NOMINEES LIMITED	33,622,641	16.72
G & A RILEY INVESTMENTS PTY LIMITED <G & A RILEY SMSF A/C>	16,893,779	8.40

On-market buy-backs

There is no on-market buy back currently in place in relation to the securities of the Company.

Restricted securities

There are no restricted securities on issue by the Company.

Additional Information for Publicly Listed Companies

Top Twenty Shareholders as at 31 August 2018

Rank	Shareholder name	No of Shares	% of ordinary shares on issue
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	45,101,222	22.43
2	NATIONAL NOMINEES LIMITED	33,622,641	16.72
3	G & A RILEY INVESTMENTS PTY LIMITED <G & A RILEY SMSF P A/C>	16,893,779	8.40
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,463,625	6.70
5	CITICORP NOMINEES PTY LIMITED	4,638,055	2.31
6	BNP PARIBAS NOMS PTY LTD <DRP>	3,355,716	1.67
7	VIP EXECUTIVE PTY LTD <VIP EXECUTIVE SUPER FUND A/C>	3,227,064	1.61
8	AUST EXECUTOR TRUSTEES LTD <GFFD>	2,943,732	1.46
9	MINNAMURRA FINANCE PTY LTD <THE RILEY FAMILY A/C>	2,859,470	1.42
10	MR JAMIE PHEROUS <BLACK DUCK HOLDINGS A/C>	2,000,000	0.99
11	DR DAVID JOHN RITCHIE + DR GILLIAN JOAN RITCHIE <D J RITCHIE SUPER FUND A/C>	2,000,000	0.99
12	GUERILLA NOMINEES PTY LTD <TOOTH RETIREMENT PLAN A/C>	1,891,176	0.94
13	ITOKA PTY LTD <PM SUPERANNUATION FUND A/C>	1,600,000	0.80
14	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	1,511,399	0.75
15	MOAT INVESTMENTS PTY LTD <MOAT INVESTMENT A/C>	1,302,500	0.65
16	ANNANDALE SUPER PTY LTD <SAM FAMILY SUPER A/C>	1,200,000	0.60
17	BLACKCOURT (NSW) PTY LIMITED <LAWSAM SUPER FUND A/C>	1,000,000	0.50
18	OSTRAVA EQUITIES PTY LTD	909,091	0.45
19	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	888,407	0.44
20	SAFARI CAPITAL PTY LTD	883,915	0.44
		<u>141,291,792</u>	<u>70.27</u>