Results for Announcement to the Market

MotorCycle Holdings Limited

ABN 29 150 386 995

APPENDIX 4D
HALF YEAR REPORT
for the six months ended 31 December 2018

MotorCycle Holdings Limited
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ABN 29 150 386 995

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Details of the reporting period

Current Period: 1 July 2018 – 31 December 2018

Previous Corresponding Period (pcp): 1 July 2017 – 31 December 2017

Results for announcement to the market

Comparison to previous corresponding period	Increase/Decrease	Change %	To A$'000
Revenue from ordinary operations	Increase	24.1%	172,811
Statutory profit from ordinary activities after tax attributable to members	Increase	37.3%	5,220
Net profit attributable to members	Increase	37.3%	5,220

Dividends	Amount per security	Franked amount per security
Interim dividend	0 cents	0 cents
Record date for determining entitlement to the interim dividend		n/a
Date the interim dividend is payable		n/a

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	14 cents	13 cents

Results Overview

Table 1: Highlights

Six months to:	Dec 2018	June 2018	Dec 2017	Dec 2018 vs Dec 2017 (%)
Motorcycle sales (units)	9,855	8,887	8,867	11
Revenue ($M)	172.8	162.5	139.3	24
Underlying EBITDA ($M)*	10.4	10.3	8.7	20
EBITDA ($M)	10.4	9.8	7.0	49
Statutory NPAT ($M)	5.2	5.9	3.8	37
Dividend (cents)	-	6.5	5.5	-100

***Underlying EBITDA excludes costs associated with acquisitions including dealerships and Cassons Pty Ltd.**

Australia's leading motorcycle dealership and accessories group, MotorCycle Holdings Limited (ASX: MTO), achieved steady growth in the six months to 31 December 2018, in a very challenging market.

Underlying earnings before interest, tax and depreciation (EBITDA) increased 19.5% to $10.4 million (2017: $8.7 million) while net profit after tax (NPAT) increased 37.3% to $5.2 million (2017: $3.8 million). Earnings per share decreased 7.6% from 9.2 cents to 8.5 cents.

These results were achieved on revenue for the half increasing 24.1% to $172.8 million (2017: $139.3 million) as a result of recent acquisitions. Comparable store sales declined 9.1% over the period.

The underlying EBITDA percentage of sales achieved was 6.0% for the period (2017: 6.2%).

Although the company has $5 million cash at bank, Directors have decided not to declare an interim dividend and have embarked on a program of lowering the business' cost structure, reducing debt and improving operational performance to enable the company to take advantage of any acquisition opportunities that may arise in the current trading environment.

Overall motorcycle sales, including both new and used motorcycles, increased 11.1% to 9,855 units for the half year to 31 December 2018 (2017: 8,867 units).

New motorcycle sales increased 4.2% as a result of recent acquisitions to 5,153 units (2017: 4,944 units), compared with a national market decline in new motorcycle sales of approximately 11.3%. It is pleasing to see that we are growing overall market share in new bikes. The Company secured approximately 10.9% of national new bike sales during the half, compared with 9.3% for the corresponding period last year.

Used motorcycles sales increased 19.9% to 4,702 units (2017: 3,923 units).

Retail Accessories and Parts revenue increased 44.9% to $38.4 million (2017: $26.5 million) due to a full half of MCA store sales. MCA was only in two months of the prior half. Servicing and Repair revenue increased 10.0% to $6.3 million (2017: $5.8 million).

Finance, Insurance and Warranty revenue decreased 11.1% to $6.5 million due to regulatory changes associated with add-on insurance and warranty revenue recognition.

While trading conditions continue to be challenging, the company's strategy of growth through acquisitions and diversification has made it more robust and better able to withstand the current trading conditions.

The company is responding to these market conditions by expanding its offering to drive sales with used bikes being included in MCA stores; by continuing to grow wholesale sales to the dealer network and by lowering our cost base.

The new joint venture with motorcycle industry finance company Allied Credit, which enables the company to provide secured loans to customers directly, provides another growth opportunity for the company.

Cassons and MCA stores are maintaining profitability despite the market contraction and good progress is being made in reducing excess stock in these businesses amounting to $3.5 million over the period.

The company will continue to focus on the productivity of its core operations by lowering its cost base, upgrading systems and improving the current profitability of the motorcycle dealerships.

Table 2: Results for the 6 months to 31 December 2018

$m	Notes	Dec 18	Jun 18	Dec 17	Change Dec 18 vs Dec 17
Revenue		172.8	162.5	139.3	24%
Materials purchased and change in inventories		-122.2	-113.8	-101.0	21%
Gross Profit		50.6	48.7	38.3	32%
Employee benefits expense		-26.7	-25.5	-20.9	28%
Occupancy expenses		-6.1	-6.2	-3.9	56%
Other expenses	1	-7.1	-6.3	-4.5	58%
Bailment interest	2	-0.3	-0.4	-0.3	0%
Operating expenses		-40.2	-38.4	-29.6	36%
Underlying EBITDA	**3**	**10.4**	**10.3**	**8.7**	**20%**
Acquisition costs		-	-0.5	-1.6	-100%
EBITDA		**10.4**	**9.8**	**7.0**	**49%**
Depreciation and amortisation		-1.8	-0.4	-0.9	100%
Net interest (excluding bailment finance facilities)		-1.1	-1.0	-0.5	120%
Profit Before Tax		**7.5**	**8.4**	**5.6**	**34%**
Tax expense		-2.3	-2.5	-1.8	28%
Net Profit After Tax		**5.2**	**5.9**	**3.8**	**37%**

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

Table 3: Operational metrics

	Dec 18	Jun 18	Dec 17	% Change Dec 18 vs Dec 17
New motorcycles sold	5,153	4,631	4,944	4.2
Used motorcycles sold	4,702	4,256	3,923	19.9
Total motorcycles sold	9,855	8,887	8,867	11.1

MotorCycle Holdings Limited and its Controlled Entities

ABN 29 150 386 995

Interim Financial Report for the half year ended 31 December 2018

MotorCycle Holdings Limited
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Directors' Report

The directors present their report together with the consolidated interim financial statements of MotorCycle Holdings Limited (the "Company") and its controlled entities (the "Group") for the six months ended 31 December 2018 and the auditor report thereon.

Directors

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

David Foster Chairperson	Appointed 1 March 2016 (Non-Executive Director), Appointed 22 July 2016 (Chairperson)
David Ahmet Managing Director	Appointed 30 June 2011
Warren Bee Non-Executive Director	Appointed 30 June 2011
Rick Dennis Non-Executive Director	Appointed 23 August 2016
Peter Henley Non-Executive Director	Appointed 1 March 2017
Rob Cassen Non-Executive Director	Appointed 31 October 2017 (Executive Director), Appointed 22 December 2018 (Non-Executive Director)

Review of Operations

The Group recorded a net profit after tax of $5,220,000 for the December half year, an increase of 37.3% compared with the results for the six months to December 2018 ($3,802,000).

Revenue for the half-year increased 24.1% to $172,811,000 (2017: $139,283,000) as a result of recent acquisitions. Comparable store sales declined 9.1% for the period as a result of market conditions.

Overall motorcycle sales, including both new and used motorcycles, increased 11.1% to 9,855 units for the half year to 31 December 2018 (2017: 8,867 units).

New motorcycle sales increased 4.2% as a result of recent acquisitions to 5,153 units (2017: 4,944 units), compared with a national market decline in new motorcycle sales of approximately 11.3%.

It is pleasing to see the company is growing overall market share in new bikes by securing approximately 10.9% of national new bike sales during the half, compared with 9.3% for the corresponding period last year.

Used motorcycles sales increased 19.9% to 4,702 units (2017: 3,923 units).

Retail Accessories and Parts revenue increased 44.9% to $38.335,000 (2017: $26,454,000) due to a full half year contribution from MCA stores. Servicing and Repair revenue increased 10.0% to $6,343,000 (2017: $5,764,000).

Finance, Insurance and Warranty revenue decreased 11.1% to $6,493,000 due to regulatory changes associated with add-on insurance and warranty revenue recognition.

Cassons and MCA stores are maintaining profitability despite the market contraction. We are also making good progress in reducing excess stock in these businesses, amounting to $3,457,000 over the period.

Market conditions continue to be challenging, however the company's strategy of growth through acquisitions and diversification has made the company more robust and there is potential for further consolidation in the current trading environment.

Dividends

Although the company has $5,054,000 cash at bank, Directors have decided not to declare an interim dividend and have embarked on a program of lowering the business' cost structure, reducing debt and improving operational performance to enable the company to take advantage of any acquisition opportunities that may arise in the current difficult trading environment.

Subsequent Matters

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

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2018.

Rounding Off

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

Signed in accordance with a resolution of the directors:

David Foster
Chairperson
26 February 2019

David Ahmet
Managing Director
26 February 2019

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

To the Directors of MotorCycle Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of MotorCycle Holdings Limited for the half-year ended 31 December 2018 there have been:

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

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

KPMG

KPMG

Simon Crane
Partner

Brisbane
26 February 2019

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 31 December 2018

	Note	31 Dec 2018 $'000	Restated* 31 Dec 2017 $'000
Sales revenue	6	165,414	130,693
Other income	7	7,397	8,590
Changes in inventories of finished goods and work in progress		(3,635)	1,352
Raw materials and consumables used		125,790	99,658
Employee benefits expense		26,702	20,870
Finance costs		1,396	818
Depreciation and amortisation expense		1,846	906
Occupancy costs		6,089	3,944
Other expenses	7	7,126	6,116
Profit before tax		**7,497**	**5,619**
Income tax expense	8	2,277	1,817
Profit for the period		**5,220**	**3,802**
Other comprehensive income		-	-
Total comprehensive income for the period attributable to owners of the Company		**5,220**	**3,802**

	Cents	Cents
Earnings per share		
Basic earnings per share	8.5	9.2
Diluted earnings per share	8.5	9.2

*The Group has initially applied AASB 9 and AASB 15 as at 1 July 2018. Under the transition methods adopted, comparative information has been restated. Refer to note 3 for further details.

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

Consolidated Interim Statement of Financial Position

As At 31 December 2018

	Note	31 Dec 2018 $'000	Restated* 30 Jun 2018 $'000
Current assets			
Cash and cash equivalents		5,054	2,469
Trade and other receivables		6,965	6,783
Inventories	10	83,786	87,421
Current tax assets		2,641	-
Other assets		24	39
Total current assets		**98,470**	**96,712**
Non-current assets			
Property, plant and equipment	11	11,851	11,211
Deferred tax assets		659	-
Goodwill and other intangible assets	12	120,717	124,496
Interest in equity accounted investees		3,906	1,156
Other assets		100	100
Total non-current assets		**137,233**	**136,963**
Total assets		**235,703**	**233,675**
Current liabilities			
Trade and other payables		9,764	11,889
Short term borrowings		29,192	26,044
Current tax liabilities		-	367
Provisions		5,937	5,658
Deferred income		2,824	2,548
Total current liabilities		**47,717**	**46,506**
Non-current liabilities			
Borrowings	13	49,567	50,290
Deferred tax liabilities		-	543
Provisions		1,523	999
Deferred income		4,266	3,960
Total non-current liabilities		**55,356**	**55,792**
Total liabilities		**103,073**	**102,298**
Net assets		132,630	131,377
Equity			
Contributed equity		120,081	120,081
Share-based payments reserve		132	88
Retained earnings		12,417	11,208
Total equity		**132,630**	**131,377**

*The Group has initially applied AASB 9 and AASB 15 as at 1 July 2018. Under the transition methods adopted, comparative information has been restated. Refer to note 3 for further details.

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

Consolidated Interim Statement of Changes in Equity

For the Six Months Ended 31 December 2018

	Note	Issued Capital	Retained Earnings	Share-Based Payments Reserve	Total Equity
		$'000	$'000	$'000	$'000
Balance as at 1 July 2018 as previously reported		**120,081**	**14,854**	**88**	**135,023**
Impact of change in accounting policies		-	(3,646)	-	(3,646)
Restated balance at 1 July 2018	3	**120,081**	**11,208**	**88**	**131,377**
Comprehensive income for the period					
Profit for the period		-	5,220	-	5,220
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	5,220	-	5,220
Transactions with owners in their capacity as owners					
Dividends paid		-	(4,011)	-	(4,011)
Issue of performance rights under LTI		-	-	44	44
Issue of shares		-	-	-	-
Issue of shares related to business combinations		-	-	-	-
Transaction costs (net of tax)		-	-	-	-
Total transactions with owners in their capacity as owners		**-**	**(4,011)**	**44**	**(3,967)**
Balance at 31 December 2018		**120,081**	**12,417**	**132**	**132,630**
Balance as at 1 July 2017 as previously reported		**30,141**	**11,994**	**-**	**42,135**
Impact of change in accounting policies		-	(2,847)	-	(2,847)
Restated balance at 1 July 2017	3	**30,141**	**9,147**	**-**	**39,288**
Comprehensive income for the period					
Restated profit for the period		-	3,802	-	3,802
Other comprehensive income		-	-	-	-
Restated total comprehensive income for the period		-	3,802	-	3,802
Transactions with owners in their capacity as owners					
Dividends paid		-	(2,846)	-	(2,846)
Issue of shares		66,963	-	-	66,963
Issue of shares related to business combinations		24,500	-	-	24,500
Transaction costs (net of tax)		(1,523)	-	-	(1,523)
Total transactions with owners in their capacity as owners		**89,940**	**(2,846)**	**-**	**87,094**
Restated balance at 31 December 2017		**120,081**	**10,103**	**-**	**130,184**

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

Consolidated Interim Statement of Cash Flows

For the Six Months Ended 31 December 2018

	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	189,593	155,369
Payments to suppliers and employees (inclusive of GST)	(172,832)	(149,507)
Interest and other costs of finance paid	(1,396)	(1,445)
Income taxes paid	(3,742)	(3,288)
Interest received	7	33
Net cash (used)/provided by operating activities	**11,630**	**1,162**
Cash flows from investing activities		
Payment for acquisition of businesses (net of cash acquired)	-	(97,278)
Investment in equity accounted investees	(2,750)	-
Payments for property, plant and equipment	(1,525)	(732)
Proceeds from sale of property, plant and equipment	74	23
Net cash (used)/provided by investing activities	**(4,201)**	**(97,987)**
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	-	66,963
Costs of issue of ordinary shares	-	(2,205)
Proceeds from borrowings	(833)	36,000
Dividend paid	(4,011)	(2,846)
Net cash (used)/provided by financing activities	**(4,844)**	**97,912**
Net increase/(decrease) in cash and cash equivalents	2,585	1,087
Cash and cash equivalents at the beginning of the period	2,469	4,516
Cash and cash equivalents at the end of the period	**5,054**	**5,603**

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

Notes to the Consolidated Interim Financial Statements

1. Reporting Entity

MotorCycle Holdings Limited (the "Company") is a company domiciled in Australia. These consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the ownership and operation of motorcycle dealerships engaging in the sale of new motorcycles, used motorcycles, accessories and parts, finance, insurance and warranty products as well as service and repair. The Group also owns and operates a rider training school and a motorcycle repair business which performs smash repair work for insurers and a motorcycle accessories wholesaling business.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2018 are available upon request from the Company's registered office at 68 Moss Street, Slacks Creek, Queensland or at www.mcholdings.com.au.

2. Basis of Preparation

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

They do not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2018.

This is the first set of the Group's financial statements where AASB 9 *Financial Instruments* and AASB15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 3.

These interim financial statements were authorised for issue by the Company's Board of Directors on 26 February 2019.

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

3. Changes in Significant Accounting Policies

Except as described below the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements for the year ending 30 June 2019.

The Group has initially adopted AASB 9 *Financial Instruments* and AASB15 *Revenue from Contracts with Customers* from 1 July 2018. A number of other new standards are effective from 1 July 2018 but they do not have a material effect on the Group's financial statements.

AASB 9 *Financial Instruments* applied from 1 July 2018

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

Trade and other receivables

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

Impact of Adoption

Trade and other receivables that were classified as loans and receivables under AASB 139 are now classified as amortised cost. There was no increase in the allowance for impairment over these receivables recognised in opening retained earnings at 1 July 2018 on transition to AASB 9.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces AASB 118 *Revenue* and related interpretations. The Group has adopted AASB 15 from 1 July 2018 using the full retrospective method of adoption.

The following table summarises the impact, net of tax, of transition to AASB 15 on retained earnings as at 1 July 2018.

	Impact of Adopting AASB15 as at **1 July 2018** **$'000**
Sale of motorcycle mechanical protection plans recognised over time	(5,598)
Related tax	1,952
	(3,646)

The following table summarises the impacts of adopting AASB 15 on the Group's interim statement of financial position as at 31 December 2018 and its interim statement of profit or loss for the six months then ended for each of the line items affected. There was no material impact on the Group's interim statement of cash flows for the six-month period ended 31 December 2018.

	Impact of Adopting AASB15 as at **31 Dec 2018** **$'000**
Assets	
Deferred tax asset	2,127
Total assets	**2,127**
Liabilities	
Unearned warranty income	7,972
Net of:	
Commissions paid on future income	(816)
Administration costs against future income	(975)
Total liabilities	**6,181**
Equity	
Retained earnings	(4,054)
Total equity	(4,054)

	Impact of Adopting AASB15 for the 6 months ended 31 Dec 2018 $'000
Other income	(730)
Cost of sales	(41)
Employee benefits expense	(106)
Profit before tax	**(583)**
Income tax expense	(175)
Profit for the period	**(408)**
Total comprehensive income for the period attributable to owners of the Company	**(408)**

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

Type of Product or Service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Wholesale accessories	Revenue from the sale of wholesale accessories is recognised when the goods are shipped from the warehouse. This is when the Company transfers the significant risks and rewards of ownership to the customer. Payment is either by prepayment or due 30 or 60 days from the end of the month during which the goods are invoiced.	AASB 15 did not have a material impact on the Group's accounting policies.
Retail new and used motorcycles	Revenue from the sale of retail new and used motorcycles is recognised when customer accepts delivery of the motorcycle. This is when the Company transfers the significant risks and rewards of ownership to the customer. Payment is due prior to or on delivery.	AASB 15 did not have a material impact on the Group's accounting policies.
Retail motorcycle parts and motorcycle accessories	Revenue from the sale of retail motorcycle parts and motorcycle accessories is recognised when the customer accepts the goods. This is when the Company transfers the significant risks and rewards of ownership to the customer. Payment is either by COD or due 30 days from the end of the month during which the goods are invoiced.	AASB 15 did not have a material impact on the Group's accounting policies.
Servicing of motorcycles	Revenue from the servicing of motorcycles is recognised when the works are completed. This is when the Company transfers the significant risks and rewards of ownership to the customer. Payment is due before the customer collects the motorcycle from the service department.	AASB 15 did not have a material impact on the Group's accounting policies.
Sale of motorcycle finance and insurance products	Revenue from commission on the sale of motorcycle finance and insurance products is recognised when the commission becomes payable by the finance or insurance company. For finance commission this is when the finance contract is settled. For insurance commission this is when the insurance policy begins.	AASB 15 did not have a material impact on the Group's accounting policies.
Sale of motorcycle mechanical protection plans	Revenue from contracts was recognised at the time of sale, less directly attributable cost and a provision for expected future claims.	Contracts with customers for motorcycle mechanical protection plans are now recognised over time, between 1-5 years from date of sale, over the life of the plan. Recognition of revenue will begin at the commencement of the plan on a pro-rata basis over the life of the plan until its expiry. Associated costs directly related to providing the contract are capitalised and amortised over the life of the plan until its expiry.

4. Use of Judgements and Estimates

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

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

5. Operating Segment Information

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

	Motorcycle Retailing		Motorcycle Accessories Wholesaling		Eliminations		Consolidated	
		Restated		Restated		Restated		Restated
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
External revenues	148,783	125,784	16,631	4,909	-	-	165,414	130,693
Inter-segment revenue	-	-	10,000	3,162	(10,000)	(3,162)	-	-
Unallocated corporate expenses	-	-	-	-	-	-	(826)	(2,140)
Segment profit before tax	4,208	6,336	4,115	1,423	-	-	8,323	7,759
Net profit before tax							**7,497**	**5,619**

	Motorcycle Retailing		Motorcycle Accessories Wholesaling		Eliminations		Consolidated	
		Restated		Restated		Restated		Restated
	31 Dec 2018	**30 Jun 2018**	**31 Dec 2018**	**30 Jun 2018**	**31 Dec 2018**	**30 Jun 2018**	**31 Dec 2018**	**30 Jun 2018**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Segment assets	137,590	132,615	98,113	100,805	-	-	235,703	233,420
Segment liabilities	68,390	60,335	34,683	41,963	-	-	103,073	102,298

6. Sales Revenue

		Restated
	31 Dec 2018	**31 Dec 2017**
	$'000	**$'000**
New motorcycles	59,385	57,619
Used motorcycles	44,458	35,612
Parts and accessories	55,035	31,364
Service	6,343	5,764
Other	193	334
	165,414	**130,693**
At a point in time	165,414	130,693
Over time	-	-
	165,414	**130,693**

7. Other Income and Expenses

	31 Dec 2018 $'000	Restated 31 Dec 2017 $'000
Other income		
Finance and insurance Income	6,493	7,307
Interest income	7	33
Other income	897	1,250
	7,397	**8,590**
At a point in time	6,432	7,834
Over time	965	756
	7,397	**8,590**

Other expenses

During the six months ended 31 December 2018 expenses of $16,000 were incurred for the acquisition of Cassons Pty Ltd which was completed on 31 October 2017 (six months ended 31 December 2017: $1,647,000). These are included in 'other expenses' in the consolidated interim statement of profit or loss and other comprehensive income.

8. Tax Expense

The Group's consolidated effective tax rate in respect of the continuing operations for the six months ended 31 December 2018 was 30 percent (for the six months ended 31 December 2017: 32 percent).

9. Financial Instruments

The financial instruments held by the Group at 31 December 2018 relate to cash and cash equivalents, trade receivables and payables, and borrowings.

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

10. Inventories

During the six months ended 31 December 2018 the Group wrote-down its inventory to net realisable value by $676,000. (six months ended 31 December 2017: $184,000) This relates to stock obsolescence and was determined using the same principles adopted for the year ended 30 June 2018.

	31 Dec 2018 $'000	30 Jun 2018 $'000
New and demonstrator motorcycles (at cost)	31,317	28,843
Less: write-down to net realisable value	(221)	(267)
New and demonstrator inventory	**31,096**	**28,576**
Used motorcycles (at cost)	10,503	13,693
Less: write-down to net realisable value	(149)	(201)
Used inventory	**10,354**	**13,492**
Parts, accessories and other consumables (at cost)	46,461	50,154
Less: write-down to net realisable value	(4,125)	(4,801)
Parts, accessories and other consumable inventory	**42,336**	**45,353**
Total inventories	**83,786**	**87,421**

11. Property, Plant and Equipment

During the six months ended 31 December 2018, the Group acquired assets with a cost of $1,525,000 (six months ended 31 December 2017: $3,018,000). This amount excludes capitalised borrowing costs. No assets were acquired through business combinations (six months ended 31 December 2017: $2,286,000).

Assets with a carrying amount of $74,000 were disposed of during the six months ended 31 December 2018 (six months ended 31 December 2017: $23,000), resulting in a loss on disposal of $36,000 (six months ended 31 December 2017: loss of $61,000), and included in 'other expenses' in the consolidated statement of profit or loss and other comprehensive income.

12. Intangible Assets and Goodwill

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

31 Dec 2018	Goodwill	Trademarks	Customer contracts and relationships	Other intangibles	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cost					
Balance at beginning of period	103,290	5,603	13,870	1,733	**124,496**
Acquired through business combinations*	(2,746)	-	-	-	**(2,746)**
Balance at end of period	**100,544**	**5,603**	**13,870**	**1,733**	**121,750**
Accumulated amortisation					
Balance at beginning of period	-	-	-	-	-
Amortisation expense	-	-	(833)	(200)	(1,033)
Balance at end of period	**-**	**-**	**(833)**	**(200)**	**(1,033)**
Carrying amounts					
Balance at beginning of period	103,290	5,603	13,870	1,733	124,496
Balance at end of period	**100,544**	**5,603**	**13,037**	**1,533**	**120,717**

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

*The adjustment to Goodwill relates to the finalisation of the purchase price allocations relating to the acquisition of Cassons Pty Ltd in the prior reporting period. This amount has been recorded as an adjustment against Goodwill, given it occurred within the 12-month measurement period of the acquisition.

Impairment Tests for Goodwill

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

Goodwill of $48,993,000 is allocated to the Motorcycle Retailing CGU and Goodwill of $51,551,000 is allocated to the Motorcycle Accessories Wholesaling CGU.

The recoverable amount of the CGU to which goodwill is allocated is determined based on the greater of its value in use and its fair value less cost of disposal. For the half year ended 31 December 2018, indicators of impairment existed due to the carrying amount of the Group's net assets exceeding its market capitalisation and the decline in the motorcycle industry trading conditions. An impairment test was therefore carried out on the Group's CGUs in accordance with accounting standards.

For the purpose of impairment testing conducted for the half year ended 31 December 2018 the recoverable amount has been based on value in use. The value in use assessment is conducted using a discounted cash flow (DCF) methodology requiring the directors to estimate the future cash flows expected to arise from the cash generating units and then applying a discount rate to calculate the present value. The DCF model adopted by the directors was based on the revised 2019 financial budget approved by the Board. The key assumptions used in the estimate of the recoverable amount include:

	Retail CGU		Wholesale CGU	
	31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
Post-tax discount rate	9.0%	10.0%	10.0%	11.0%
Perpetual growth rate	2.5%	2.5%	2.5%	2.5%
Budgeted EBITDA growth rate	2-5%	2-5%	2.5%	2.5%

The discount rate was a post-tax measure estimated based on the historical industry weighted average cost of capital, with a possible debt leveraging of 25% (Jun 2018: 23%) at a market interest rate of 5.5% (Jun 2018 4.2%).

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

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

The Directors' assessment for the half year ended 31 December 2018 determined that goodwill was not impaired. The estimated recoverable amount of the CGU based on its value in use, exceeded its carrying amount by:

- Wholesale CGU – $19,540,000
- Retail CGU – $12,360,000

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

	Retail	Wholesale
Post-tax discount rate	+0.9%	+1.6%
Budgeted FY19 EBITDA	-21.0%	-18.0%

13. Loans and Borrowings

	31 Dec 2018 $'000	30 Jun 2018 $'000
Opening balance	50,290	11,000
Amounts drawn down	2,000	41,670
Repayments	(2,833)	(2,417)
Amortisation of deferred borrowing costs	110	37
Total long term borrowings	**49,567**	**50,290**

14. Dividends Paid and Declared

The following dividends were declared and paid by the Company:

	For the six months ended 31 Dec 2018 $'000	For the six months ended 31 Dec 2017 $'000
Final Dividend for the financial year of 6.5 cents per ordinary share (2017: 7.5 cents)	4,011	2,846
No interim dividend payable (2018: 5.5 cents)	-	3,394

15. New Standards and Interpretations not yet Adopted

The following standards, issued but not mandatory for the interim reporting period ended 31 December 2018, have not been adopted by the Company in preparing these consolidated interim financial statements.

AASB 16 *Leases*

AASB 16 removes the lease classification test for lessees as either operating leases or finance leases as is required by AASB 17 and instead, introduces a single lessee accounting model, involving capitalisation of leased assets and on balance sheet recognition of total liabilities. The Group's operating leases with terms of more than 12 months relate to leases of property including dealership premises, retail outlets, and warehouse facilities.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 in the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition examples.

Thus far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of its dealership premises, retail outlets, and warehouse facilities. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $29,172,000, on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because AASB 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

Transition

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply AASB 16 initially on 1 July 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

When applying a modified retrospective approach to leases previously classified as operating leases under AASB 117, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

16. Subsequent Events

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

Directors' Declaration

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

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

    (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, for the six-month period ended on that date; and

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

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

Signed in accordance with a resolution of the directors:

David Ahmet
Managing Director

Dated at Brisbane this 26th day of February 2019

Independent Auditor's Review Report

To the shareholders of MotorCycle Holdings Limited

Report on the interim Financial Report

Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated Interim Statement of Financial Position as at 31 December 2018;
- Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income, Consolidated Interim Statement of Changes in Equity and Consolidated Interim Statement of Cash Flows for the half-year ended on that date;
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of MotorCycle Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Simon Crane
Partner

Brisbane
26 February 2019