



scottish pacific
BUSINESS FINANCE



ANNUAL REPORT 2017

2017 PROGRESS

Scottish Pacific Group Limited
listed on the Australian Securities
Exchange on 13 July 2016.
Key highlights in the past
financial year are:



11.3%

Organic year on year
loan book growth



0.13%

Bad and Doubtful
Debt expense



\$100.3m

Net revenue



8.5cps

Final dividend
(16.5cps for full year)



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CHAIRMAN AND CHIEF EXECUTIVE'S REPORT



"We are pleased to present our 2017 Annual Report. We are proud of the progress we have made this year, and in particular, the way our people have thrived on the change that has come as result of our recent growth."

We are pleased to present our results for the Financial Year 2017.

This was a transformational year for us. After closing three acquisitions in six months leading up to June 2016 and listing on the Australian Securities Exchange on 13 July 2016, management and staff were kept busy ensuring the staff of both Scottish Pacific and the acquired entities were properly integrated into a single team with a shared vision and values set.

It was very pleasing to finish the year having managed this transition whilst simultaneously enhancing our overall market position. We achieved organic growth of our loan book of 11.3% whilst maintaining very strict credit control achieving a bad and doubtful debt expense of just 0.13%. This loss rate is an amazing testament to all our staff who continued their focus on capital preservation notwithstanding the significant changes to our operating environment. It is difficult to understate the significance of this result.

Through the acquisition of Bibby's Australasian operation and the debtor finance operations of both GE Capital and Suncorp we have been fortunate to add some highly skilled and experienced staff to our business which further strengthens our capabilities and competitive positioning. With the integration now fully behind us the platform is well established to support both the continued growth of our core debtor finance business and the development of new products, channels and geographies.

ACHIEVEMENTS

PEOPLE

We are extremely proud of our staff who have been through the integration of three new businesses and thrived on the change that it brought. We now have over 280 staff spread across, Australia, New Zealand, China and the UK.

Despite the extent of change during the year, staff engagement was very strong:

- 43% of vacancies were filled internally with over 30% from staff referrals;
- We finished the year with staff attrition rates of less than 13% (below the national average);
- 86% of staff showed a high engagement in being strongly committed to helping the organisation achieve its vision and goals;
- The engagement score for Culture and Values was 85% (against the external benchmark of 64% being the average for other businesses who completed the survey); and
- Staff engagement scores actually increased in 2017, compared to our previous survey.

Not only did staff remain engaged, they also embraced working together for the wider community. This is an important part of our Culture and Values as we work with grass roots businesses that are making a difference in their own communities.

Scottish Pacific has a fundraising matching policy, where we match the fundraising efforts of our staff, whether as a group or individually. We also encourage staff to take paid days off from work, to carry out charity work.

In addition, many company fundraising events are held throughout the offices.

Scottish Pacific is currently implementing a Workplace Giving Program, "Scotpac Gives Back", which will allow staff to easily support nominated charities by salary sacrifice.

SALES AND MARKETING

Following further investment in our sales and marketing capability, new business enquiries have increased, as well as our relationships with finance brokers and accountants.

Our level of business sourced from our direct marketing team via online and phone enquiries, continues to be a big success as we continue to develop and invest in this area. During the year, Scottish Pacific saw an 8% increase in business sourced directly online, with over 20% of all new loans now originated directly.

Referral agreements with two banks have also provided Scottish Pacific with an increase in new business currently representing 7% of all new loans. With specialist Business Development Managers managing these relationships we expect these agreements to provide deeper access within the banks allowing them to better satisfy the needs of their own customers in an environment which makes it increasingly difficult for them to service SMEs directly.

We will be launching our online origination platform over the next few months. This will not only improve online origination, but assist us in establishing additional partnership arrangements with parties servicing the SME sector.

Investment in sales systems and training has seen a dramatic increase in the productivity of our sales team with conversion rates continuing to improve.

RISK MANAGEMENT

A well-resourced Risk and Compliance team, along with live data risk reporting systems, allowed for an exceptional year in risk management. Bad and doubtful debt expense was just 0.13% of average loan book exposure which compares extremely favourably to average historical level of ~0.5% over the previous four years. Whilst we expect a continued improvement upon historical loss rates, we will not change our provisioning policy until the improvement has been sustained over the medium term.

We are confident that our loan book is being well managed and will continue to support competitive funding rates.

CUSTOMER EXPERIENCE

We provide an essential service to a widely underserved group of SMEs who all have unique needs and busy schedules, so providing our clients with the highest level of service is crucial to the success of their own businesses.

Investment in new technologies and systems will continue to improve the client experience by making it easier to do business. Our clients range from start-ups to small public companies, and we are always challenging ourselves to be better able to meet their unique working capital needs.

Scottish Pacific experienced higher than normal levels of attrition in the early part of the year as we integrated the newly acquired businesses, however we are pleased to report that attrition rates have slowed and are now much closer to historical levels. Client retention remains a key focus of the business.

Ongoing client focus groups are conducted across all the Australian businesses to gain insights to our clients' needs. We have listened to our clients and are implementing several suggestions based on their feedback. A new client satisfaction portal will also soon be available to clients so we can have constant pulse checks on the client experience.

EXPANDING THE MARKET

Based on our client feedback, we have been able to identify areas of need for our clients and the wider SME market. We have increased our investment in product development and are currently developing products to meet those identified needs whilst also expanding our target market to over one million SMEs. Our digital platform development will soon be available, and is expected to provide quick and easier access to working capital that SMEs have told us they need. The fast approval process will attract businesses that previously may have seen debtor finance as too complex to implement. We have a highly reputable brand and through strategic partnerships, Scottish Pacific will have access to new introducer channels as well as new channels to market. With our strong funding relationships, we are confident of our ability to expand our business and substantially increase the awareness in the market through our dynamic product range and new product offerings.

COMPETITIVE MARKET POSITIONING

Scottish Pacific is now the largest provider of debtor finance to SMEs in Australia and New Zealand with more customers and the largest sales team of any operator in the market. This scale provides a number of unique benefits to Scottish Pacific including access to low cost funding, the ability to fund larger customers without raising concentration risk and the ability to invest in new technology, product development and marketing and sales capability.

The strong credit performance of the portfolio has facilitated Scottish Pacific's access to deep, diversified, and cost effective funding that is highly capital efficient with 5% equity support required to fund new loans. Whilst systems are important, the company has the most experienced credit underwriters to support low loss rates whilst exploring flexible funding options for our customers.

We have a proven ability to navigate successfully through economic cycles whilst continuing to support the funding needs of SMEs. Our model allows us to internally fund our growth ambitions whilst our high cash conversion supports a steady distribution of dividends to our shareholders.

We are excited about the future of Scottish Pacific and appreciate the support of all our staff, Board, clients and shareholders.

Yours sincerely,



Patrick Elliott
Chairman



Peter Langham
Chief Executive Officer
and Executive Director




DIRECTORS' REPORT

30 JUNE 2017

The directors present their report, together with the financial statements, on the consolidated entity (the Group) consisting of Scottish Pacific Group Limited (the Company or Parent entity) and the entities it controlled at the end of, or during, the financial year ended 30 June 2017.

DIRECTORS

The names and particulars of the directors of the Company (the Board) during or since the end of the financial year are:

DIRECTOR	BIOGRAPHY
 Patrick Elliott <i>Non-Executive Chairman</i>	<p>Patrick was appointed to the board on 29 May 2013.</p> <p>He is a founding Partner of private equity firm Next Capital where he is a director of a number of portfolio companies.</p> <p>Prior to founding Next Capital, Patrick was an Executive Director of Macquarie Bank having joined the private equity division in 1997, with experience in a broad range of sectors including retail, industrial and consumer products and services. Patrick was Chairman of JB Hi-Fi Limited from 2000 to 2012 and Chairman of the Australian Venture Capital Association Limited (AVCAL) in 2004.</p> <p>Patrick holds a Master of Business Administration (Hons) from IMD (Switzerland) and a Bachelor of Commerce/Law from The University of New South Wales.</p> <p>SPECIAL RESPONSIBILITIES: Chair – Remuneration & Nominations Committee Member – Audit and Risk Committee</p>
 Peter Langham <i>Chief Executive Officer and Executive Director</i>	<p>Peter has over 33 years of experience in the Debtor Finance industry with experience in audit and credit, international factoring, client management and sales.</p> <p>In 1988, Peter joined Bank of Scotland Debtor Finance business in a sales role and was appointed as Head of Sales for England and Wales in 1991.</p> <p>In 1993, Peter joined Scottish Pacific (then owned by Bank of Scotland) and in 1997 Peter joined AGC, the Debtor Finance arm of Westpac, before establishing Benchmark Debtor Finance Pty Limited in 1998.</p> <p>In 2005, the founding shareholders of Benchmark Debtor Finance sold their interests to BA Ventures Limited and Benchmark continued on a growth path which culminated in the acquisition of Scottish Pacific Business Finance in 2007.</p> <p>Peter has remained CEO since 2005.</p>
 Peter Clare <i>Independent Non-Executive Director</i>	<p>Peter was appointed to the board on 18 December 2014.</p> <p>Peter is the former CEO of Westpac New Zealand and prior to that, held numerous senior roles within Westpac and St. George.</p> <p>Peter holds a Master of Business Administration from Macquarie University and a Bachelor of Commerce from The University of New South Wales.</p> <p>He is a member of the Australian Institute of Company Directors and the Governance Institute of Australia and a fellow of CPA Australia and the Financial Services Institute of Australasia ("Finsia").</p> <p>SPECIAL RESPONSIBILITIES: Member – Remuneration & Nominations Committee</p> <p>DIRECTORSHIPS OF OTHER LISTED COMPANIES: ChimpChange LLC (Chairman) – Since April 2015 Rubik Financial Ltd – July 2016 to May 2017 Reffind Limited (Chairman) – April 2015 to November 2016</p>

DIRECTOR**BIOGRAPHY**



Katrina Onishi
*Independent
Non-Executive
Director*

Katrina was appointed to the board on 9 June 2016.

Katrina is a Director and an advisor to several not for profit organisations.

Until 2010, Katrina was an Executive Director of Concord Capital Limited, a boutique funds management business that she co-founded in 2000.

Prior to co-founding Concord, Katrina held several funds management roles both in Australia and overseas.

Katrina holds a Bachelor of Arts (Hons) from The University of Sydney and is a Chartered Financial Analyst. Katrina is a member of the CFA Institute, a graduate member of the Australian Institute of Company Directors and a fellow of Finsia.

SPECIAL RESPONSIBILITIES:

Member – Audit and Risk Committee

DIRECTORSHIPS OF OTHER LISTED COMPANIES:

Plato Income Maximiser Limited (Non-Executive Director) – Since February 2017

Vitaco Holdings Limited (Non-Executive Director and Chairman of the Audit Committee)

– August 2015 to December 2016



Andrew Love
*Independent
Non-Executive
Director*

Andrew was appointed to the board on 9 June 2016.

Andrew has over 35 years of experience in restructuring and corporate insolvency, with a particular focus on the mining sector.

Andrew was a partner at Ferrier Hodgson Chartered Accountants for over 25 years until 2008, when as a Senior Partner he retired and remains a Consultant.

Andrew is a member of both the Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

Andrew holds a Bachelor of Commerce from The University of New South Wales.

SPECIAL RESPONSIBILITIES:

Chair – Audit and Risk Committee

DIRECTORSHIPS OF OTHER LISTED COMPANIES:

Gateway Lifestyle Group (Non-Executive Chairman) – Since May 2015

Champion Iron Limited (Non-Executive Director) – Since April 2014

Roc Oil Company Limited – February 1997 to December 2013

COMPANY SECRETARIES

Chris Hedge was appointed as company secretary in January 2016. He holds a Bachelor of Business from the University of Technology Sydney. Chris has over 20 years of experience in the Debtor Finance industry and 12 years working with SME clients in the accounting profession and related financial services. He joined the Group in 2003, where he has held a number of executive positions including Head of Debtor Finance, and took over the CFO role for the Group in 2016.

Chris attended meetings from July 2016 to June 2017.

Emma Lawler was appointed as company secretary in August 2016 and has over 16 years of experience as a company secretary. Emma holds a Bachelor of Business and a Graduate Diploma in Applied Corporate Governance and is a Fellow of the Governance Institute of Australia.

Emma attended meetings from August 2016 to June 2017.

PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial year were the provision of debtor finance and the provision of trade finance. The Company is a for profit company.

DIVIDENDS

In respect of the financial year ended 30 June 2016, there were no dividends declared or paid by the Group.

In respect of the financial year ended 30 June 2017, a dividend of 31.6 cents per share (total of \$36.3 million) franked to 100% at 30% corporate income tax rate was paid to holders of ordinary shares in the Company on 13 July 2016. This dividend was subject to the Initial Public Offer (IPO) of the Group which occurred on the same date.

An interim dividend of 8.0 cents per share (total of \$11.1 million) franked to 100% at 30% corporate income tax rate was paid to holders of ordinary shares in the Company on 22 March 2017.

A final dividend of 8.5 cents per share (total of \$11.8 million) franked to 100% at 30% corporate income tax rate payable to holders of ordinary shares in the Company was declared on 29 August 2017.

REVIEW OF OPERATIONS

The profit for the Group after providing for income tax amounted to \$20,442,000 (30 June 2016: \$100,000).

OPERATING AND FINANCIAL REVIEW

The Board presents its operating and financial review for the year ended 30 June 2017 to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for the future. This review complements the financial report.

Principal Activities and Review of Operations

Scottish Pacific Group Limited is a long standing, specialised financial services provider. Specifically, the Group provides working capital to small and medium sized enterprises ("SMEs") operating in Australia, New Zealand ("NZ") and the United Kingdom ("UK"). The business in the UK is a very new one and only commenced operations in May 2015. The capability of our UK business was expanded in January 2017 when the Group acquired 100% of the issued capital in Sterling Trade Finance Ltd ("Sterling"). That company has since been renamed Scottish Pacific Business Finance (UK) Ltd.

The Group continues to refine its highly specialised credit underwriting and credit management capability. This expertise is used to provide working capital to a wide range of businesses from businesses that are in start-up phase right through to small publicly listed companies that have been trading for many years.

Debtor finance continues to be the most popular type of working capital facility that the Group provides and has been for all of the 29 years that the Group has been trading. Debtor finance represents over 95% of the Group's total loan exposure and we estimate that the Group continues to hold a market share of at least 20% of the debtor finance market within Australia.

The Group also provides trade finance facilities to clients. This entails the financing of specific transactions where either the supplier or the end customer is a resident outside of Australia, NZ or UK. The Group's trade finance business is still a young business and represents less than 5% of the Group's total loan exposure. However, it is an area where the Directors believe further growth can be driven, especially in the UK.

Integration of recent Acquisitions

The integration of the staff and clients of the Bibby business and the client portfolios of GE and Suncorp is now complete and has delivered the expected cost synergies. The integration of the operating systems of the three acquisitions and the Scottish Pacific legacy business onto a single platform remains on track. The Group now has 287 staff members and for the last quarter of FY2017 annualised unplanned staff turnover was 12.5%, being less than the national average.

The Group's UK staff and staff who joined the Group via the Sterling acquisition were quickly co-located in a new office and the acquired clients are expected to be migrated to the Group's new system in the first half of FY2018.

Scottish Pacific is a service business and the key to delivering exceptional service to our clients is an engaged and motivated workforce. The management team will continue to focus on staff engagement within our business as a key differentiator. Our most recent Staff Engagement survey results were an improvement on those of the previous year (pre-acquisitions) and our staff can continue to expect to see further initiatives in this area.

The success of our client integration efforts can be measured by two key metrics; our net promoter score (NPS), and our client attrition rate. Historically, the Group has achieved NPS results much higher than other financial service businesses which continued with our most recent client survey. The Group has also decided to increase the frequency of our client surveys (to three per year) and to include NPS as an STI performance criteria applicable to all staff and executive team.

Post the acquisitions, client attrition increased and some clients borrowed less. The second half of FY2017 has seen a marked improvement and client attrition is now much more in line with historic trends. It remains a core focus of all of our staff to further reduce the rate of client attrition.

New Business and Trading Performance

The vast majority of the Group's new clients are referred by third parties (i.e. finance brokers, accountants, business advisors, bankers and past and present clients).

A concerted effort to lift the proportion and absolute level of new business generated by online origination and other direct contact commenced in FY2015 and continues to be very successful. Direct business is now contributing more than 20% of new business on a sustained basis.

Bad Debt Protection is one of the Group's newer products that was acquired via the Bibby acquisition. Since its introduction it has been growing strongly and penetration across the full client portfolio continues to improve.

Another Bibby product, Progress Claim Finance ("PCF") was recently relaunched and promoted with expectations of future growth.

After a slower than expected first quarter, the company has returned to its long term growth trend. The loan book at the end of June 2017 after adjusting for restricted cash, was 11.3% higher than the same time in 2016. This is a like for like growth number as the final acquisition was completed in June 2016 (excluding the Stirling acquisition in January 2017 which has an immaterial impact on the results).

Bad & Doubtful Debts

The Group's performance on managing Bad and Doubtful Debts was exceptional for the year ended 30 June 2017. The Bad and Doubtful Debts expense was \$1.1m (FY16 \$2.3m). This was driven by:

- successful integration of Scottish Pacific credit policy and procedures across the recently acquired client portfolios; and
- investment in risk staff training and a more sophisticated risk monitoring system.

Funding

The Group's business operations are now funded by a mix of four warehouse facilities, a mezzanine facility, a corporate debt facility and surplus cash generated from normal business operations. Warehouse facilities exist where third party funders provide limited recourse financing to special purpose vehicles ("SPVs") that have been established by the Group to fund the purchase of receivables. These facilities are asset backed and are non-recourse to Scottish Pacific. The Group currently has \$1,283m in approved warehouse facilities with \$429m of availability as at 30 June 2017. Mezzanine facilities are also asset backed and are non-recourse to the Group. Mezzanine facilities provide credit enhancement to the SPVs. The Group currently has \$60m in approved mezzanine facilities with \$10m undrawn.

Corporate Debt facilities fund a range of general corporate expenses, including ongoing working capital needs and the acquisition of new businesses. This debt is guaranteed by and has recourse to the Group. The Group currently has \$70m in approved corporate debt facilities with \$11m undrawn.

Principal Risks

The Group's key risks include but are not limited to:

Debtors and clients unable to meet their financial obligations.

As a provider of working capital to businesses, the most fundamental risk to the Group is that its clients and debtors do not meet their financial obligations. Whilst our primary repayments are through debtor collections, the Group also has recourse to the client. Significant over collateralisation of our portfolio of assigned receivables and strong underwriting standards mitigate the risk of material loss.

As at 30 June 2017, exposure as a percentage of gross receivables (loan to value ratio) was 51%. In some instances, we have the added protection of credit insurance for some receivables.

Major Fraud Events

The Group is exposed to the risk that counterparts with which it deals, including clients and debtors, may act fraudulently. This may include inducing the Group to advance funds against false invoices. The Group relies on its internal controls to detect fraud. Any failure of these controls could result in credit losses, damage to the Group's reputation and its ability to raise funding. Underwriting experience accumulated over 29 years, knowledge of industry and client specific risks, continuously improving credit processes and a highly diversified loan book mitigate the risk of material loss from fraud.

Funding Risk

A loss of or adverse impact on any one of Scottish Pacific's funding sources could limit the Group's ability to continue to fund its existing business and/or to write new business if it could not find an alternative financier. This risk has been substantially mitigated by the diversification of the Scottish Pacific funding platform and the mix of large regulated financial institutions providing funds to the Group.

The Group continues to meet the portfolio requirements of all of its wholesale funders which has been enhanced by the exceptional performance with Bad & Doubtful Debts during FY2017.

Regulatory changes

The Group operates in an environment where there is a relatively low level of regulation. Changes in law or regulation in any of these markets could materially impact the business.

Business Strategies and Prospects

The Board and Executive management team remain focussed on delivering robust organic business growth over the long term.

In Australia, NZ and the UK, SMEs continue to be underserved by traditional bank lending practices and it is this opportunity that Scottish Pacific seeks to maximise. Successful product innovation has been and will continue to be an important driver of business growth and the Group ensures that it is well resourced to investigate and deliver on new working capital funding initiatives for SMEs.

Our existing product portfolio already includes a number of recently introduced products that have not yet achieved the level of market penetration that we believe is possible. The FY2017 trading performance has been positively influenced as these products achieve greater market penetration.

Scottish Pacific will always entertain the possibility of further acquisitions that fit with the Group's target market, provide superior rates of return and add value for shareholders. Such opportunities will always be assessed on their individual merits and be subject to a rigorous due diligence process.

The small acquisition in the UK trade finance market that was completed in January 2017 ("Sterling") is a good example of that. The existing Sterling staff are very experienced in the UK market and have all continued with the business. Sterling has a small portfolio of debtor finance clients in addition to their more substantial trade finance portfolio which provides the Group with the ability to immediately expand our product offering in the UK while adding more efficient scale. The purchase has been funded entirely from the Group's internal cash flow.

We continue to invest in technology as an enabler and to make our processes more efficient. There is a constant stream of new technology becoming available to help us going forward.

Financial Review

Income Statement

On a statutory reporting basis, net revenue increased by \$27.1m (37%) to \$100.3m (FY2016 \$73.2m). This included 12 months of revenues for the Bibby legacy, GE and Suncorp businesses.

Total statutory expenses increased by \$0.1m (0.1%) to \$72.8m (2016: \$72.7m). Significant movements include:

- additional expenses intrinsically linked to the additional revenues generated by the newly acquired businesses and client portfolios;
- a number of non-repeating expenses in the prior year linked to the acquisition and integration of the acquired businesses into the Scottish Pacific Group e.g. early termination of premises leases, staff redundancy payments;
- diversifying the Group's funding platform (e.g. legal and other advisory fees incurred in establishing two new warehouse facilities and a mezzanine facility). In total these costs in the prior year were \$8.3m; and
- \$8.9m was spent on a number of large non-repeating expenses incurred in the current period for the IPO which took place on 13 July 2016.

The Group recorded a statutory net profit before tax of \$27.5m (2016: \$0.5m). This represented a substantial increase on the FY2016 statutory result but, as outlined above, this trading result included the full year benefit of the three acquired businesses.

Balance Sheet

The Balance Sheet when compared to FY2016 shows the following significant changes:

- client receivables (before restricted cash) increased 11.3% from \$745.7m to \$830.1m;
- reduction in trade and other payables from \$25.2m to \$10.3m as transaction, integration and IPO costs accrued in FY2016 were paid out;
- drawn securitised debt facilities increased 11.3% from \$812.6m to \$904.4m;
- drawn corporate loan facilities decreased 14.5% from \$69.0m to \$59.0m after repayment of \$10.0m from proceeds of the IPO; and
- share capital increased 41.7% from \$146.1m to \$207.0m (after transaction costs).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Scottish Pacific Group Limited (ASX: SCO) was admitted to the Official List of the Australian Securities Exchange (ASX) and its ordinary shares commenced trading on 13 July 2016.

The Company's shares were offered at \$3.20 each with total proceeds of \$293.5m raised. The issue of 24.2m shares raised \$77.3m while the sale of 67.6m existing shares raised \$216.2m representing 65.9% of the shares on issue after completion of the IPO. The purpose of the IPO was to provide the Company with access to the capital markets to improve capital management flexibility and capacity to fund future growth initiatives; and a liquid market for its shares and an opportunity for employees and others to invest in the Company.

The IPO also provided the opportunity for existing shareholders to realise all or a portion of their investment in the Group.

There were no other significant changes in the state of affairs of the Group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group will continue to focus on its core business, currently operating three core receivables systems to support all portfolios from the acquisitions completed in FY2016. A project is underway to transition the Group onto one new receivables system. We expect to realise some process efficiencies upon completion of the project in late FY2018.

The Group will also continue to explore opportunities for enhanced distribution arrangements and, where appropriate, introduce new products to continue to grow our business.

MEETINGS OF DIRECTORS

The number of meetings of the Board and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	BOARD		REMUNERATION AND NOMINATION COMMITTEE		AUDIT AND RISK COMMITTEE		SPECIAL PURPOSE COMMITTEE TO APPROVE FINANCIAL RESULTS	
	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD
Patrick Elliott	15	15	5	5	4	4	2	2
Peter Langham	15	15	–	–	–	–	–	–
Katrina Onishi	15	15	–	–	4	4	–	–
Andrew Love	15	15	–	–	4	4	2	2
Peter Clare	13	15	5	5	–	–	–	–

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

This report sets out the remuneration arrangements for the Group's key management personnel (KMP). It forms part of the Directors' report and has been prepared and audited in accordance with the requirements of the *Corporations Act 2001*.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors. The Group's KMP for FY2017 are referred to as non-executive directors or senior executives.

NON-EXECUTIVE DIRECTORS

NAME	POSITION
Patrick Elliott	Chairman and non-executive director
Peter Clare	Independent non-executive director
Kate Onishi	Independent non-executive director
Andrew Love	Independent non-executive director

SENIOR EXECUTIVES

NAME	POSITION
Peter Langham	Chief Executive Officer (CEO) and director
Chris Hedge	Chief Financial Officer (CFO)
Paul Green (to 1 Feb 2017)	Head of Risk and Compliance
Steven Davies (from 1 Feb 2017)	Chief Operating Officer (COO)

Except as noted, all non-executive directors and senior executives have held their positions for the whole of FY2017.

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- termination payments, if any, are justified and appropriate.

The Remuneration and Nomination Committee (RNC) is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel. The RNC is comprised of:

REMUNERATION AND NOMINATION COMMITTEE

NAME	POSITION
Patrick Elliott	Chairman and member
Peter Clare	Member

From time to time the RNC may engage with external remuneration consultants to review the structure of the executive remuneration framework to ensure it is market competitive and complementary to the reward strategy of the Group. The RNC did not obtain services from remuneration consultants in FY2017.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth by encouraging earnings per share growth, and consistently achieving net profit after tax targets; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable 'at-risk' components.

The executive remuneration and reward framework has three components:

EXECUTIVE REMUNERATION AND REWARD FRAMEWORK		
FIXED	VARIABLE 'AT-RISK'	
FIXED REMUNERATION	SHORT-TERM INCENTIVE	LONG-TERM INCENTIVE
<ul style="list-style-type: none"> Reviewed annually. Based on individual and business unit performance. Benchmarked against market remuneration. 	<ul style="list-style-type: none"> Determined based on financial targets set by the Board. Maximum incentive as a proportion of base salary range from 20% to 40%. Delivered in cash. 	<ul style="list-style-type: none"> FY2017 LTI grant was made in the form of options that may be converted into shares upon vesting. LTI award is subject to a compound growth in EPS performance condition. Participant must be employed by the Group on the relevant vesting date. For the CEO and CFO, the notional value of the options offered is 60% of base salary. For other participants, the notional value is between 10% and 30% of base salary.

Group performance for FY2017

The following table shows the Group's financial performance in FY2017. These financial measures are relevant to the discussion of performance conditions for senior executives.

The Group completed its IPO and listed on the ASX on 13 July 2016. Comparative numbers for the previous four years are therefore not shown as this is the Group's first remuneration report as a listed entity.

YEAR	SHARE PERFORMANCE		EARNINGS PERFORMANCE		DIVIDEND
	OPENING SHARE PRICE (\$)	CLOSING SHARE PRICE (\$)	EPS (CENTS)	NPAT (\$'000)	CENTS PER SHARE
2017	3.20*	2.71	14.79	20,442	8.0 (interim only)

* This is the opening share price on 13 July 2016, the date of listing on the Australian Securities Exchange.

Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the RNC based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Short-term incentives

The short-term incentives (STI) scheme is the 'at-risk' cash-based component of executive remuneration which is subject to the satisfaction of performance conditions. The STI scheme has been designed to align the performance hurdles of senior executives with the targets of the Group.

Participation	Senior executives and other members of the management team are eligible to participate in the STI program.																			
Performance period	1 July 2016 to 30 June 2017.																			
Performance assessment finalised	Shortly after the release of the audited results of FY2017.																			
Maximum incentive as a proportion of base salary	20% – 40%																			
Performance condition	<p>The STI award is based on the achievement of net profit after tax (NPAT) targets in the Group's audited financial results. This financial target is set in accordance with the Group's financial strategy and plan for the year.</p> <p>This performance condition centred on NPAT was chosen by the Board to align the interests of the senior executives with the Group's short-term and long-term strategy, and satisfies the following core principles of the Group's remuneration framework:</p> <ul style="list-style-type: none"> • having economic profit as a core component of plan design; and • attracting and retaining high calibre executives. <p>The Board has determined that in respect of FY2017, no STI is payable as pro forma NPAT was less than that set out in the Group's IPO prospectus.</p>																			
STI opportunity	<p>The STI opportunities of the KMP are set out below:</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">LEVEL OF PERFORMANCE</th> </tr> <tr> <th>THRESHOLD (95% OF TARGET NPAT)</th> <th>TARGET (100% OF TARGET NPAT)</th> <th>STRETCH (110% OF TARGET NPAT)</th> </tr> </thead> <tbody> <tr> <td>Peter Langham</td> <td>10% of max. STI</td> <td>60% of max. STI</td> <td>100% of max. STI</td> </tr> <tr> <td>Chris Hedge</td> <td>10% of max. STI</td> <td>60% of max. STI</td> <td>100% of max. STI</td> </tr> <tr> <td>Steven Davies</td> <td>10% of max. STI</td> <td>60% of max. STI</td> <td>100% of max. STI</td> </tr> </tbody> </table>		LEVEL OF PERFORMANCE			THRESHOLD (95% OF TARGET NPAT)	TARGET (100% OF TARGET NPAT)	STRETCH (110% OF TARGET NPAT)	Peter Langham	10% of max. STI	60% of max. STI	100% of max. STI	Chris Hedge	10% of max. STI	60% of max. STI	100% of max. STI	Steven Davies	10% of max. STI	60% of max. STI	100% of max. STI
	LEVEL OF PERFORMANCE																			
	THRESHOLD (95% OF TARGET NPAT)	TARGET (100% OF TARGET NPAT)	STRETCH (110% OF TARGET NPAT)																	
Peter Langham	10% of max. STI	60% of max. STI	100% of max. STI																	
Chris Hedge	10% of max. STI	60% of max. STI	100% of max. STI																	
Steven Davies	10% of max. STI	60% of max. STI	100% of max. STI																	
Eligibility requirements	<ul style="list-style-type: none"> • An employee of the Group at payment date. • Employed by the Group for at least six months during the respective financial year (a pro rata incentive will be determined where the employment period was between six months and twelve months). • Performance appraisal completed with relevant manager. • Not be under any form of performance management. • Not be a member of another Group cash based incentive scheme (e.g. any Sales Incentive Commission Plan). 																			
Option for discretion	<ul style="list-style-type: none"> • The CEO may adjust the portion of the STI awarded to other senior members of management. • The STI is at the discretion of the CEO and the Board and is subject to change or cancellation at any time. 																			
Payment date	Payments delivered in October 2017 if required.																			

Percentage of STI paid and forfeited for senior executives for FY2017

The table below details the STI awards received by senior executives, as well as the percentage of the maximum that was awarded and forfeited, as a result of FY2017 performance conditions not being met.

SENIOR EXECUTIVES	TARGET STI OPPORTUNITY	ACTUAL STI AWARDED	ACTUAL STI AWARDED AS % OF MAX. STI	% OF MAX. STI AWARD FORFEITED
Peter Langham	\$180,000	\$0	0%	100%
Chris Hedge	\$130,000	\$0	0%	100%
Steven Davies	\$85,603	\$0	0%	100%
Paul Green	\$69,394	\$0	0%	100%

Long-term incentives

The long-term incentives (LTI) scheme is the 'at-risk' equity component of executive remuneration which is subject to the satisfaction of long-term performance conditions. The LTI scheme is designed to align senior executives' interests with the interests of the Group's shareholders by providing the executives an opportunity to receive Shares through the granting of Options (as described below).

During FY2017, there were two LTI schemes impacting senior executives' remuneration. An existing LTI scheme (referred to as the Legacy LTI scheme for the remainder of this report) was in place up to the date of listing on the ASX on 13 July 2016. The Legacy LTI scheme was replaced by a new LTI scheme on the date of listing.

Participation	Senior executives and other selected employees of the Group are eligible to participate in the LTI scheme.
Grants	<p>The Group intends that the maximum notional value of the Options offered to the CEO and CFO will be 60% of their total fixed remuneration and other selected employees will be between 10% and 30% of their total fixed remuneration as determined by the Board.</p> <p>Options of an amount up to 1,879,374 Shares were granted under the initial grant. The value of the Options granted varied between the initial participants.</p> <ul style="list-style-type: none"> • Peter Langham was granted 456,081 Options. • Chris Hedge was granted 329,391 Options. • Steven Davies was granted 155,830 Options. • Other senior management were collectively granted 938,072 Options.
Options	Each Option confers on its holder the entitlement to receive one or more Shares at the exercise price upon exercise of the Option.
Issue price and exercise price	\$3.20
Performance period	Five years following the date of grant of the Options to the relevant participant.
Expiry of Options	<p>Options will expire on a date fixed in the offer letter to the particular employee. This may vary from employee to employee or between different grants.</p> <p>On the expiry date for an Option, the Option will lapse (unless it has been validly exercised).</p>

<p>Performance (vesting) conditions</p>	<p>The Options will vest subject to an EPS hurdle over the performance period. The EPS vesting percentages will correspond to the Group's annual compounding EPS growth over the performance period (adjusted to take into account one-off items associated with the Group's IPO, if necessary), and are as follows:</p> <table border="1" data-bbox="497 539 1471 779"> <thead> <tr> <th data-bbox="497 539 986 611">EPS PERFORMANCE CONDITION (ANNUAL COMPOUNDING EPS)</th> <th data-bbox="992 539 1471 611">% OF VESTING ENTITLEMENT THAT WILL VEST</th> </tr> </thead> <tbody> <tr> <td data-bbox="497 620 986 658">Less than 8%</td> <td data-bbox="992 620 1471 658">Nil</td> </tr> <tr> <td data-bbox="497 667 986 728">8% – 15%</td> <td data-bbox="992 667 1471 728">The Options will vest on a straight line pro rata basis between 30% and 100%</td> </tr> <tr> <td data-bbox="497 736 986 775">Greater than 15%</td> <td data-bbox="992 736 1471 775">100% of the Options will vest</td> </tr> </tbody> </table> <p>None of the Options will vest during the first two years of the five year performance period. During the third, fourth and fifth year of the performance period, the Options will vest as follows:</p> <ul data-bbox="497 875 1471 1099" style="list-style-type: none"> • 1/3 of the Options will vest (in the manner set out above) if the Group has achieved the relevant EPS target at the end of the third year of the performance period; • 1/3 of the Options will vest (in the manner set out above) if the Group has achieved the relevant EPS target at the end of the fourth year of the performance period; and • 1/3 of the Options will vest (in the manner set out above) if the Group has achieved the relevant EPS target at the end of the fifth year of the performance period. <p>To the extent that any Options which vest in years 3 and 4 do not vest due to the Group not achieving the relevant EPS target, those Options will be subject to retesting based on the Group's annual compounding EPS performance until the Option expires (i.e. in years 4 or 5 (as applicable)).</p> <p>In addition to the EPS performance condition, it is a vesting condition of each of a participant's tranche of Options that the participant has been continuously employed by a member of the Group (and has not resigned or been terminated) at all times up to (and including) the relevant vesting date.</p> <p>The above performance conditions centred on EPS was chosen by the Board to align the interests of the senior executives with the Group's short-term and long-term strategy, and satisfies the following core principles of the Group's remuneration framework:</p> <ul data-bbox="497 1480 1471 1559" style="list-style-type: none"> • focusing on sustained growth in shareholder wealth; and • having economic profit as a core component of plan design. 	EPS PERFORMANCE CONDITION (ANNUAL COMPOUNDING EPS)	% OF VESTING ENTITLEMENT THAT WILL VEST	Less than 8%	Nil	8% – 15%	The Options will vest on a straight line pro rata basis between 30% and 100%	Greater than 15%	100% of the Options will vest
EPS PERFORMANCE CONDITION (ANNUAL COMPOUNDING EPS)	% OF VESTING ENTITLEMENT THAT WILL VEST								
Less than 8%	Nil								
8% – 15%	The Options will vest on a straight line pro rata basis between 30% and 100%								
Greater than 15%	100% of the Options will vest								
<p>Measurement of performance conditions</p>	<p>At the relevant test date for a tranche, the RNC will determine the annual compounding EPS growth rate as at test date and assess whether the EPS related performance conditions have been met.</p> <p>For the purposes of calculating annual compounding EPS growth for the initial grant, the Board has determined to use a base EPS figure which is equal to 90% of FY2017 pro forma forecast EPS (i.e., this number forms the base number from which EPS growth is calculated for the initial grant).</p>								
<p>Cessation of employment of holders of Options</p>	<p>If the participant ceases employment, unless the Board determines otherwise, any unvested Options will lapse or be forfeited as appropriate.</p>								
<p>Restrictions on Options</p>	<p>Except as permitted by the Board, a participant must not sell, transfer, encumber, hedge or otherwise deal with Options.</p> <p>Once Options are exercised and Shares are issued in their place, generally no disposal restrictions apply to Shares, other than the restrictions that apply under the Company's Securities Trading Policy. However the Board may determine to apply disposal restrictions to those Shares on a case by case basis at the time of granting Options.</p>								

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the RNC. The RNC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. Initially, and until a different amount is determined, the maximum aggregate non-executive directors' remuneration is \$750,000 per annum. The next annual general meeting is scheduled for November 2017.

The annual non-executive directors' remuneration currently agreed to be paid by the Group are \$175,000 to the Chairman of the Board and \$100,000 to each of the other non-executive directors. In addition, the following annual fees are payable to non-executive directors who are members of the following committees:

Audit and Risk Committee

Chairman fee \$15,000
Member fee \$7,500

Remuneration and Nomination Committee

Chairman fee \$15,000
Member fee \$7,500

SUMMARY OF REMUNERATION MIX

The FY2017 remuneration mix for the KMP, assuming achievement of all performance based criteria, is set out in the following table.

NAME	FIXED	STI	LTI	TOTAL
NON-EXECUTIVE DIRECTORS:				
Patrick Elliott	100%	–	–	100%
Peter Clare	100%	–	–	100%
Katrina Onishi	100%	–	–	100%
Andrew Love	100%	–	–	100%
SENIOR EXECUTIVES:				
Peter Langham	50%	20%	30%	100%
Chris Hedge	50%	20%	30%	100%
Steven Davies	62%	19%	19%	100%
Paul Green	77%	23%	0%	100%

SERVICE AGREEMENTS

All non-executive directors and senior executives are party to a written executive service agreement with the Company.

Key terms of executive service agreements for senior executives

Fixed remuneration for FY2017	Peter Langham – \$450,000 per annum base salary (inclusive of superannuation). Chris Hedge – \$325,000 per annum base salary (inclusive of superannuation). Steven Davies – \$285,343 per annum base salary (inclusive of superannuation). Paul Green – \$231,312 per annum base salary (inclusive of superannuation).
Periods of notice	There is a six month period required to terminate the employment contracts of Peter Langham, Chris Hedge and Steven Davies.
Termination payments	No provision is made in the contracts for termination payments other than amounts paid in respect of notice of termination.

DETAILS OF REMUNERATION

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

2017	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS*	TOTAL \$
	CASH SALARY AND FEES \$	CASH BONUS \$	OTHER BENEFITS \$	SUPER-ANNUATION \$	LONG SERVICE LEAVE \$	EQUITY-SETTLED \$	
Non-executive directors:							
Patrick Elliott	197,500	–	–	–	–	–	197,500
Peter Clare	106,900	–	–	10,156	–	–	117,056
Katrina Onishi	102,539	–	–	9,741	–	–	112,280
Andrew Love	109,692	–	–	10,421	–	–	120,113
Senior executives:							
Peter Langham	431,219	–	–	19,616	7,187	54,925	512,947
Chris Hedge	304,393	–	–	19,616	5,089	39,304	368,402
Steven Davies**	102,298	–	6,045	10,741	1,793	17,121	137,998
Paul Green**	149,160	–	–	14,170	2,403	–	165,733
	1,503,701	–	6,045	94,461	16,472	111,350	1,732,029

* This represents the value recognised in reserves in FY2017 for both Legacy Options and Options granted to senior executives as part of the new LTI scheme. For cash payments made in FY2017 related to the Legacy Options, see Legacy LTI section below.

** The benefits to Steven Davies and Paul Green have been pro-rated for the period they were members of the KMP during FY2017.

Options from Legacy LTI scheme

The Group implemented a long term incentive scheme in 2013 after funds advised by Next Capital acquired the Group. This scheme consisted of the grant of Options over Shares in the Company which were subject to certain vesting requirements and were met on completion of the Group's IPO. The holders of Legacy Options exercised a portion of the Legacy Options, and accepted the cancellation of a portion of their Legacy Options in return for a cash payment on 13 July 2016.

NAME	LEGACY OPTIONS HELD ON 1 JULY 2016	NUMBER EXERCISED AND CONVERTED TO SHARES ON 13 JULY 2016	NUMBER CANCELLED AND SETTLED IN CASH	VALUE OF LEGACY OPTIONS CONVERTED TO SHARES*	VALUE OF LEGACY OPTIONS CANCELLED	LEGACY OPTIONS HELD ON 13 JULY 2016
Non-executive directors						
Peter Clare	200,000	40,000	160,000	\$128,000	\$239,560	–
Senior executives						
Peter Langham	2,428,970	1,100,996	1,327,974	\$3,523,187	\$2,240,187	–
Chris Hedge	799,730	230,487	569,243	\$737,558	\$1,125,728	–
Paul Green	351,932	125,368	226,564	\$401,178	\$368,667	–

* Value of Legacy Options converted to shares based on the Group's listing price on the Australian Securities Exchange of \$3.20.

SHARE-BASED COMPENSATION

Movement in shares held by KMP

The following table sets out the movement in the number of shares held by KMP in FY2017.

NAME	OPENING BALANCE	FROM OPTIONS EXERCISED	SHARES PURCHASED	SHARES SOLD	CLOSING BALANCE
Non-executive directors					
Patrick Elliott	46,256,452	–	671,895	23,128,226	23,800,121
Peter Clare	200,000	40,000	9,300	–	249,300
Katrina Onishi	–	–	40,000	–	40,000
Andrew Love	–	–	66,250	–	66,250
Senior executives					
Peter Langham	1,997,613	1,100,996	436,500	–	3,535,109
Chris Hedge	340,513	230,487	–	–	571,000
Steven Davies	–	–	18,500	–	18,500
Paul Green	101,197	125,368	–	–	226,565

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of KMP in this financial year or future reporting years are as follows:

GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE
FY2017 LTI grants				
13 July 2016	12 July 2019	12 July 2021	\$3.20	\$0.537
13 July 2016	12 July 2020	12 July 2021	\$3.20	\$0.549
13 July 2016	12 July 2021	12 July 2021	\$3.20	\$0.559

The following table sets out the movement in options (from the LTI scheme) held by senior executives in FY2017.

NAME	OPENING BALANCE	GRANTED	VALUE GRANTED	VESTED	FORFEITED	CLOSING BALANCE
Senior executives						
Peter Langham	–	456,081	\$250,084	–	–	456,081
Chris Hedge	–	329,391	\$180,616	–	–	329,391
Steven Davies	–	155,830	\$85,446	–	–	155,830

Senior executives received a grant of options on 13 July 2016 on completion of the Group's IPO as the 'at-risk' LTI component of their remuneration package. No options were granted to non-executive directors in FY2017.

Options granted carry no dividend or voting rights.

This concludes the remuneration report, which has been audited.

INDEMNITY AND INSURANCE OF OFFICERS

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the Group (as named above), the company secretaries, and all executive officers of the Group against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Group against a liability incurred as such an officer.

INDEMNITY AND INSURANCE OF AUDITOR

During or since the end of the financial year the Group has not indemnified or made a relevant agreement to indemnify the auditor of the Group against a liability incurred as the auditor. In addition, the Group has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by the auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 17 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 17 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and consequently the amounts in the directors' report and the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the overall corporate governance of the Group, including adopting appropriate policies and procedures designed to ensure that the Group is properly managed to protect and enhance Shareholder interests.

The Board is committed to implementing the highest possible standards of corporate governance and maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Group. In conducting the business with these objectives, the Board seeks to ensure that the Group is properly managed to protect and enhance Shareholder interests, and that the Group and, its Directors, officers and personnel operate in an appropriate environment of corporate governance. The Board believes that sound governance is fundamental to the ongoing success and growth of the Group in the markets in which it participates.

Accordingly, the Board has created a framework for managing the Group, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the Group's business and which are designed to promote the responsible management and conduct of the Group.

Details of the Group's key governance policies and the charters for the Board and each of its committees are available on Scottish Pacific's website at www.scottishpacific.com.au/investors.

This Corporate Governance Statement reports against the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (**ASX Principles**) and the practices detailed in this Corporate Governance Statement are current as at 31 July 2017. It has been approved by the Board and is available on the Company website under Investors at www.scottishpacific.com.au/investors.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Patrick Elliott

Chairman and non-executive director

29 August 2017

Sydney



Peter Langham

CEO and executive director

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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The Board of Directors
Scottish Pacific Group Limited
Leve 5, 20 Bond Street
Sydney NSW 2000

29 August 2017

Dear Board Members

Scottish Pacific Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Scottish Pacific Group Limited.

As lead audit partner for the audit of the financial statements of Scottish Pacific Group Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Heather Baister
Partner
Chartered Accountants

FINANCIAL STATEMENTS

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GENERAL INFORMATION

The financial statements are for the consolidated group consisting of Scottish Pacific Group Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2017. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

The Group embarked on an initial public offering ('IPO') and listed on the Australian Securities Exchange ('ASX') on 13 July 2016, and from that date forward the ordinary shares of the company were publicly traded. The ASX ticker code is SCO. The Company is incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5, 20 Bond Street
Sydney NSW 2000

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, in accordance with a resolution of directors, on 29 August 2017. The directors have the power to amend and reissue the financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

CONSOLIDATED			
	NOTE	2017 \$'000	2016 \$'000
Revenue			
Fee income		68,116	48,115
Interest income		67,878	47,612
Interest expense		(35,694)	(22,504)
		32,184	25,108
Net revenue		100,300	73,223
Expenses			
Employee benefits expense		(33,793)	(27,659)
Office & administration expense		(14,691)	(12,884)
Professional fees		(11,418)	(20,709)
Bad & doubtful debts expense		(1,061)	(2,252)
Depreciation & amortisation expense		(6,572)	(2,998)
Operating profit		32,765	6,721
Borrowing expense		(5,256)	(6,219)
Profit before income tax expense		27,509	502
Income tax expense	4	(7,067)	(402)
Profit after income tax expense for the year attributable to the owners of Scottish Pacific Group Limited		20,442	100
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		–	25
Foreign currency translation		(285)	266
Other comprehensive income for the year, net of tax		(285)	291
Total comprehensive income for the year attributable to the owners of Scottish Pacific Group Limited		20,157	391
		CENTS	CENTS
Basic earnings per share	26	14.79	0.11
Diluted earnings per share	26	14.79	0.10

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

CONSOLIDATED			
	NOTE	2017 \$'000	2016 \$'000
Assets			
Cash and cash equivalents		21,833	16,112
Restricted cash	5	146,648	129,262
Client receivables	6	830,057	745,688
Current tax asset	4	1,827	1,142
Other receivables	7	3,074	6,450
Deferred tax	4	8,522	5,356
Property, plant and equipment		1,785	2,086
Intangibles	8	8,614	14,416
Goodwill	9	148,587	148,305
Total assets		1,170,947	1,068,817
Liabilities			
Trade and other payables	10	10,299	25,164
Provisions	11	4,360	4,196
Debt facilities	16	904,415	812,600
Borrowings	12	55,079	63,711
Total liabilities		974,153	905,671
Net assets		196,794	163,146
Equity			
Issued capital	13	206,959	146,118
Reserves	14	826	998
Retained profits/(accumulated losses)		(10,991)	16,030
Total equity		196,794	163,146

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

CONSOLIDATED	SHARE CAPITAL \$'000	FOREIGN CURRENCY TRANS- LATION RESERVE \$'000	OTHER RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2015	75,238	624	83	15,930	91,875
Profit after income tax expense for the year	-	-	-	100	100
Other comprehensive income for the year, net of tax	-	266	25	-	291
Total comprehensive income for the year	-	266	25	100	391
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 13)	70,880	-	-	-	70,880
Balance at 30 June 2016	146,118	890	108	16,030	163,146

CONSOLIDATED	SHARE CAPITAL \$'000	FOREIGN CURRENCY TRANS- LATION RESERVE \$'000	OTHER RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2016	146,118	890	108	16,030	163,146
Profit after income tax expense for the year	-	-	-	20,442	20,442
Other comprehensive income for the year, net of tax	-	(285)	-	-	(285)
Total comprehensive income for the year	-	(285)	-	20,442	20,157
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 13)	60,842	-	-	-	60,842
Share-based payments	-	-	112	-	112
Dividends paid (note 15)	-	-	-	(47,463)	(47,463)
Balance at 30 June 2017	206,960	605	220	(10,991)	196,794

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

			CONSOLIDATED	
	NOTE	2017 \$'000	2016 \$'000	
Cash flows from operating activities				
Receipts from customers (inclusive of GST)		100,670	73,672	
Payments to suppliers and employees (inclusive of GST)		(73,575)	(53,096)	
		27,095	20,576	
Interest and other finance costs paid on borrowings (corporate debt)		(4,027)	(5,502)	
Security deposit paid		4,117	(2,939)	
Income taxes paid		(9,032)	(8,274)	
Net cash from operating activities	25	18,153	3,861	
Cash flows from investing activities				
Payment for purchase of subsidiary, net of cash acquired	21	(764)	(141,336)	
Proceeds from/(payments to) client receivables		(81,744)	41,690	
Payments for property, plant and equipment		(428)	(1,245)	
Net cash used in investing activities		(82,936)	(100,891)	
Cash flows from financing activities				
Proceeds from issue of shares	13	58,954	70,880	
Proceeds from/(payments of) lease financing		(227)	644	
Repayment of loan on acquisition of subsidiary		(1,414)	–	
Repayment of mezzanine finance		–	(24,491)	
Proceeds from/(Repayment of) securitised debt		70,654	(8,192)	
Proceeds from corporate borrowings		–	114,000	
Repayment of corporate borrowings		(10,000)	(45,000)	
Payment of borrowing costs		–	(6,461)	
Dividends paid		(47,463)	–	
Net cash from financing activities		70,504	101,380	
Net increase in cash and cash equivalents		5,721	4,350	
Cash and cash equivalents at the beginning of the financial year		16,112	11,762	
Cash and cash equivalents at the end of the financial year		21,833	16,112	

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

For the year ended 30 June 2017, Scottish Pacific Group Limited (the Company or Parent entity) and the entities it controlled (the Group) prepared general purpose financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

COMPLIANCE WITH IFRS

For the year ended 30 June 2017 the financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

ROUNDING

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

PARENT ENTITY INFORMATION

In accordance with the *Corporations Act 2001*, the financial statements present the results of the Group only. Supplementary information about the Parent entity is disclosed in Note 20.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Scottish Pacific Group Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended. Scottish Pacific Group Limited 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 from 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.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides 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.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

FUNDING PROCESS AND CONSOLIDATION OF SPECIAL PURPOSE VEHICLES

Funding for the Group's debtor finance and other products is provided through the use of securitisation structures. The Group's funding vehicle funding process is set out below:

1	Receivables book assigned to the Group	Scottish Pacific's client agrees to sell receivables, which are sales invoices issued by the client, to the Group (Receivables). In return, the Group agrees to advance the client a portion of the face value of the Receivables (this amount is disclosed as client receivables on the statement of financial position (refer to note 6).
2	Receivables sold to Funding Vehicle	The Group in turn sells the Receivables to a special purpose vehicle (Funding Vehicle). Provided the Receivables meet the relevant lending criteria for the Funding Vehicle, it will provide the Group the client receivable amount.
3	Funding Vehicle draws down on funding sources	<p>The Funding Vehicle draws down on its funding sources to fund the client receivable amount, typically as follows:</p> <ul style="list-style-type: none"> • Senior Facilities: Senior secured debt instruments funded by bank lenders – these typically provide up to 90% of the client receivables amount. • Junior notes are issued to a separate special purpose vehicle (Mezzanine Vehicle) or to the Group: <ul style="list-style-type: none"> • Mezzanine Facility: A facility that may provide up to 50% of the remaining funding requirement. The Mezzanine Facility is subordinated to the Senior Facilities and is only repaid after the Senior Facilities. • The Group contributes the remaining funds required (typically 5% – 10% of the client receivables amount) from its equity or operating cash, typically by purchasing junior notes issued by the Mezzanine Vehicle. Funds that the Group contributes are subordinated to the Senior Notes and the Mezzanine Facility. <p>The sum of the loans from the Senior Facilities and the Mezzanine Facility is disclosed as debt facilities on the statement of financial position. These loans are asset backed by the Receivables and are non-recourse to the Group.</p>
4	Debtor repays invoice to Funding Vehicle	When the debtor pays their invoices this money flows through the facilities. The Senior Facilities are repaid first, followed by the Mezzanine Facility with the Group receiving the residual income. Once the client receivables amount, interest and fees have been fully paid, all remaining funds are paid to the client. This amount is referred to as the client control amount (refer to credit risk in note 16).

The Funding Vehicles and Mezzanine Vehicle are entities over which the Group has control as the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Accordingly, the Funding Vehicles and Mezzanine Vehicle are fully consolidated.

FOREIGN CURRENCY TRANSLATIONS

The financial statements are presented in Australian dollars, which is Scottish Pacific Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest Income

Interest income earned on client receivables is recognised on an accruals basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. The effective interest rate is determined taking into account commissions paid to brokers and any other contractual amounts that affect estimated future cash receipts, but not future credit losses, and all other premiums or discounts.

Interest income from cash deposits is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

Fee Income

Fee income includes administration fees, expense recoveries from clients and other sundry income. Administration fees cover the cost of assessing and processing factoring applications as well as administrative fees charged to clients for the provision of collateral securing their facilities.

Fee income is recognised in the period in which it is earned. Administration fees relating to the cost of assessing and processing factoring facility applications for new borrowers are recognised upon granting of the facility. To the extent that these fees represent a recovery of cost or a charge for services, they are recognised when charged to the client.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

INCOME TAX

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred Tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company is the head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. Current tax expense (or income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a 'stand-alone basis without adjusting for intercompany transactions approach' by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation. Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable/(receivable) to/(from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the head entity as an equity contribution or distribution. The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities. The contribution amount arising under the tax funding arrangement is charged to the Company through the intercompany account.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and at call deposits with original maturities of three months or less. Cash that is restricted for certain purposes is separately recognised as restricted cash.

CLIENT RECEIVABLES

Client receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition client receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Client receivables comprise loans made to clients, which are secured on trade and other receivables including factored receivables. Factored receivables represent invoices and debit notes assigned to the Group by factoring clients. These are generally settled within three months and are carried at amounts due. The carrying amount of client receivables approximates fair value.

The Group's secured client receivables are securitised and funded via one of the following trusts:

1. Scottish Pacific Benchmark Master Trust
2. Scottish Pacific New Zealand Trust
3. Scottish Pacific (BFS) Warehouse Trust 2016
4. Scottish Pacific (Paringa) Warehouse Trust 2016
5. Scottish Pacific (Mezzanine) Funding Trust 2016

The Group and the Company continue to be exposed to risks and benefits of the client receivables and accordingly these continue to be recognised in their own financial statements.

Other receivables are recognised at amortised cost, less any provision for impairment.

Client receivables are assessed for impairment individually and on a collective basis, and are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivable, the estimated future cash flows of the receivable has been affected. Objective evidence of impairment over a portfolio of client receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Net client receivables is reduced through the use of an allowance (provision for impairment) account. Changes in the carrying amount of the allowance account is recognised in profit or loss. When a client receivable is considered uncollectible, it is written off against the allowance account. If there are subsequent recoveries of amounts previously written off, the recovery is recognised in profit or loss.

The Group derecognises a receivable when the contractual rights to the cash flows from the asset expire, or when it transfers the receivable and substantially all the risks and rewards of ownership of the asset to another party.

INTANGIBLE ASSETS

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. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. 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 arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to the relevant cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Customer relationships

Customer relationships arising on an acquisition of a business is initially measured at their fair value at the date of the acquisition. Customer relationships have finite useful lives and are subsequently measured at cost less accumulated amortisation and impairment losses, if any. Customer relationships are amortised on a straight line basis over the period of their expected benefit.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of intangible assets is tested on an annual basis for goodwill and indefinite life assets, or more frequently when indicators of potential impairment are identified for finite life intangibles.

Goodwill is assessed for impairment at the segment level. Identified intangible assets are tested for impairment at the asset level. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

Impairment losses are recognised in the profit or loss. Impairment losses recognised are allocated first to reduce the carrying amount of any goodwill, and then to reduce the carrying amounts of the other assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Finite life intangibles while amortised over their expected life are tested annually for indicators of impairment and where an indicator does exist the finite life intangible is tested for impairment.

TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

DEBT FACILITIES AND BORROWINGS

Debt facilities are limited-recourse secured debt facilities obtained by the Group for the purpose of funding its client receivables. Borrowings are revolving corporate debt facilities used to fund a range of general corporate expenses.

Debt facilities and borrowings are both initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

FINANCE COSTS

Finance costs attributable to qualifying assets are capitalised as part of the asset.

Interest is recognised in the profit and loss using the effective interest rate method. Interest costs on debt facilities is recognised as interest expense in the profit or loss. Interest costs on borrowings is recognised as borrowing expense in the profit or loss.

PROVISIONS

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Government and high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively; and
- Liabilities or equity instruments related to share-based payment arrangements of the acquirer or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Group, 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 financial year.

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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning 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 financial instrument assets are to be classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is to hold assets in order to collect contractual cash flows and held for sale, 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 designated at fair value through profit or loss, 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. The Group currently models its collective provision for impairment of client receivables based on 10 years of historical loss data. The Group is in the process of determining the impact of AASB 9 on its financial results.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning 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. 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 judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard for the financial year ending 30 June 2019 and the impact of its adoption is yet to be assessed by the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning 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 the amount of initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the

condition required by the terms and conditions of the lease. 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 will be recognised in the statement of financial position, measured as the fixed payments, less any lease incentive receivables, the variable lease payments, the amounts expected to be payable by the lessees under residual value guarantees, the exercise price of a purchase option and the payments of penalties for terminating the lease. 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. The Group is yet to determine the adoption date of this standard and the impact of its adoption is yet to be assessed by the Group.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates impacting financial results. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results.

PROVISION FOR IMPAIRMENT OF CLIENT RECEIVABLES

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of collective and specific provision for impairment is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position. For further information on credit risk, refer to note 16.

GOODWILL

Measuring the recoverable amount of an intangible asset with an indefinite useful life such as goodwill may be done using two methods; fair value less costs of disposal and value in use. Management has elected to perform fair value less cost of disposal calculations to determine whether the Group's goodwill is impaired. These calculations are applied at the CGU level, benchmarking the Group's earnings ratios with comparable companies in the industry and require assumptions to be made by management. The recoverable value of the CGUs is then compared to the carrying value, including goodwill, of the CGU.

The carrying amount of goodwill at 30 June 2017 was \$148.6 million (2016: \$148.3 million). No impairment loss was recognised during the financial year (2016: nil).

NOTE 3. OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE OPERATING SEGMENTS

The Group is organised into two operating segments:

1. **Debtor financing** provided to clients through a range of products including factoring, invoice discounting and other specialised products. Products within this segment are funded through the four limited-recourse funding vehicles of the Group.
2. **Trade financing** provided to clients through a range of products including import and export finance, and Tradeline products. These products are funded through the Group's limited-recourse funding vehicles with the exception of the Sterling trade finance portfolio.

These operating segments are based on the internal reports that are reviewed and used by Peter Langham (CEO), who is the Chief Operating Decision Maker ('CODM') in assessing performance and in determining the allocation of resources of the Group.

The CODM reviews net revenue and net profit after tax results. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. Information is reported to the CODM on a monthly basis.

NOTE 3. OPERATING SEGMENTS (continued)

GEOGRAPHIC AND CUSTOMER SEGMENTS

Revenues from overseas operations are not material to the Group nor does the Group have a material credit risk exposure to any single debtor or group of debtors.

CONSOLIDATED – 2017	DEBTOR FINANCE \$'000	TRADE FINANCE \$'000	TOTAL \$'000
Revenue			
Management fees	63,008	5,108	68,116
Net Interest Income	32,486	(302)	32,184
Net revenue	95,494	4,806	100,300
Employee benefits expense	(31,559)	(2,234)	(33,793)
Office and administration expense	(13,758)	(933)	(14,691)
Professional fees	(11,265)	(153)	(11,418)
Bad and doubtful debts expense	(892)	(169)	(1,061)
Depreciation and amortisation	(6,533)	(39)	(6,572)
Borrowing costs	(5,256)	–	(5,256)
Profit before income tax expense	26,231	1,278	27,509
Income tax expense			(7,067)
Profit after income tax expense			20,442
Assets			
Segment assets	1,156,525	14,421	1,170,946
Total assets			1,170,946
Liabilities			
Segment liabilities	970,685	3,468	974,153
Total liabilities			974,153

CONSOLIDATED – 2016	DEBTOR FINANCE \$'000	TRADE FINANCE \$'000	TOTAL \$'000
Revenue			
Management fees	43,586	4,529	48,115
Net Interest Income	25,399	(291)	25,108
Net revenue	68,985	4,238	73,223
Employee benefits expense	(25,774)	(1,885)	(27,659)
Office and administration expense	(12,022)	(958)	(12,980)
Professional fees	(20,527)	(182)	(20,709)
Bad and doubtful debts expense	(1,964)	(192)	(2,156)
Depreciation and amortisation	(2,980)	(18)	(2,998)
Borrowing costs	(6,219)	–	(6,219)
Profit/(loss) before income tax expense	(501)	1,003	502
Income tax expense			(402)
Profit after income tax expense			100
Assets			
Segment assets	1,058,399	10,418	1,068,817
Total assets			1,068,817
Liabilities			
Segment liabilities	902,600	3,071	905,671
Total liabilities			905,671

NOTE 4. INCOME TAX

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	7,343	6,058
Deferred tax – origination and reversal of temporary differences	1,103	(5,656)
Adjustment for prior period	(1,379)	–
Aggregate income tax expense	7,067	402
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	1,103	(5,656)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	27,509	502
Tax at the statutory tax rate of 30%	8,253	151
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	193	122
Difference in overseas tax rates	–	(30)
Adjustment for prior period	(1,379)	–
Acquisition costs related to share capital	–	159
Income tax expense	7,067	402
<i>Amounts credited directly to equity</i>		
Deferred tax assets	(1,887)	–
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Impairment of client receivables	1,454	1,593
Provisions	1,582	2,101
Accrued expenses	1,131	1,780
IPO and other capital costs	5,927	2,839
Borrowing costs	1,014	1,375
Unrealised foreign exchange (gains)/losses	–	(7)
Intangible client relationships	(2,586)	(4,325)
Deferred tax asset	8,522	5,356
Movements:		
Opening balance	5,356	3,441
Credited/(charged) to profit or loss	(1,103)	5,656
Credited to equity	1,887	–
Additions through business combinations (note 21)	–	1,205
Prior year adjustment	642	–
Deferred tax liability on intangible client relationships	1,740	(4,946)
Closing balance	8,522	5,356
<i>Income tax refund due</i>		
Income tax refund due	1,827	1,142

NOTE 5. RESTRICTED CASH

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Trust cash (operating accounts)	94,089	74,203
Trust cash (collection accounts)	52,104	50,828
Security deposits held against bank guarantees	455	4,231
	146,648	129,262

Trust cash (operating accounts) represents funds held in the name of the trustee used for the operation of the securitised funding vehicle. These funds may only be utilised by the trustee of the securitised funding vehicle.

Trust cash (collection accounts) represents funds held in banks accounts in the name of the Group over which the trustee holds a security interest and which will be transferred to the trust cash (operating accounts) the following business day. These funds may only be utilised by the trustee of the securitised funding vehicle.

NOTE 6. CLIENT RECEIVABLES

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Client receivables	834,907	750,997
Less: Provision for impairment of client receivables	(4,850)	(5,309)
	830,057	745,688
Movements in provision for impairment of client receivables:		
Collective provision		
Opening balance – collective provision	2,456	1,990
Additional collective provision recognised	617	466
Specific provision		
Opening balance – specific provision	2,853	1,164
Additional specific provision recognised	1,299	2,378
Write offs	(1,520)	(364)
Unused provisions released	(855)	(325)
	4,850	5,309

NOTE 7. OTHER RECEIVABLES

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Other receivables	2,603	3,366
Prepayments	471	3,084
	3,074	6,450

NOTE 8. INTANGIBLES

Client relationship intangible assets are amortised using the straight line method over a 3 year period. This is management's estimate of customer retention periods based on historical information.

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Client relationships – at cost	16,527	16,527
Less: Accumulated amortisation	(7,913)	(2,111)
	8,614	14,416

RECONCILIATIONS

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

CONSOLIDATED	CLIENT RELATIONSHIPS \$'000
Balance at 1 July 2015	–
Additions through business combinations (note 21)	16,527
Amortisation expense	(2,111)
Balance at 30 June 2016	14,416
Amortisation expense	(5,802)
Balance at 30 June 2017	8,614

NOTE 9. GOODWILL

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Opening balance	148,305	56,054
Additions through business combinations	854	92,251
Purchase price allocation adjustments	(572)	–
Goodwill	148,587	148,305

The Group is comprised of two operating segments, being debtor finance and trade finance. All prior acquisitions were related to debtor finance and the related goodwill have been allocated to the debtor finance segment. The FY2017 acquisition was related to trade finance and the related goodwill has been allocated to the trade finance segment.

The recoverable amount of this segment is determined based on fair value less cost of disposal calculations. These calculations are applied at the CGU level, benchmarking the Group's earnings ratios with comparable companies in the industry and require key assumptions to be made by management including:

- Identifying comparable companies (observed price-to-earnings ratios ranged from 14.5 to 36.5); and
- Disposal transaction costs: 10%.

Purchase price allocation adjustments relate to acquisitions completed in FY2016. Additional information on the valuation of client receivables, leading to recoveries on client receivables that were previously provided for, were made available after the acquisitions. Under the acquisition accounting method, the existing provision for impairment on these client receivables were not recognised on acquisition, rather the client receivables balance was fair valued. Accordingly, the recoveries on these client receivables made in FY2017 were not recognised through the statement of profit or loss, but as a purchase price allocation adjustment to the goodwill recognised in FY2016.

NOTE 10. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Trade payables – debtor finance	244	4,036
Trade payables – trade finance	2,179	2,892
Lease incentive payable	576	735
Other payables	7,300	17,501
	10,299	25,164

Refer to note 16 for further information on financial instruments.

NOTE 11. PROVISIONS

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Provision for annual leave	1,830	1,797
Provision for long service leave	1,443	1,299
Provision for make good	588	338
Provision for onerous leases	499	762
	4,360	4,196

NOTE 12. BORROWINGS

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Loan facility	54,662	63,067
Secured loan	417	644
	55,079	63,711

Refer to note 16 for further information on financial instruments.

The loan facility is secured against the Group's property, including cash, and the Group's residual interest in the funding vehicles.

The secured loan is secured against the assets under a chattel mortgage comprising IT equipment.

NOTE 13. ISSUED CAPITAL

	CONSOLIDATED			
	2017 SHARES	2016 SHARES	2017 \$'000	2016 \$'000
Ordinary shares – fully paid	139,191,601	112,358,765	206,959	146,118

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES	\$'000
Balance	30 June 2015	75,138,030	75,238
Issue of ordinary shares	23 July 2015	34,091	60
Issue of ordinary shares	31 December 2015	28,330,654	49,862
Issue of ordinary shares	22 June 2016	8,855,990	20,958
Balance	30 June 2016	112,358,765	146,118
Issue of ordinary shares in IPO	13 July 2016	24,162,014	77,318
Issue of ordinary shares employee offer shares	13 July 2016	67,080	–
Issue of ordinary shares on exercise of LTI options	13 July 2016	2,603,742	–
Repurchase of LTI equity interests	13 July 2016	–	(12,075)
Transaction costs net of tax benefit	13 July 2016	–	(4,402)
Balance	30 June 2017	139,191,601	206,959

ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

NOTE 14. RESERVES

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Foreign currency translation reserve	606	890
Share-based payments reserve	220	108
	826	998

NOTE 15. DIVIDENDS

DIVIDENDS

Dividends paid during the financial year were as follows:

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Interim dividend paid on 22 March 2017 (8.0 cents per ordinary share, 2016: nil)	11,135	–
Dividend paid on 13 July 2016 on completion of IPO	36,328	–
	47,463	–

A final dividend of 8.5 cents per share (total of \$11.8 million) franked to 100% at 30% corporate income tax rate payable to holders of ordinary shares in the Company was declared on 29 August 2017.

FRANKING CREDITS

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Franking credits available at the reporting date based on a tax rate of 30%	3,621	24,354
Franking credits available for subsequent financial years based on a tax rate of 30%	3,621	24,354

NOTE 16. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's activities expose it to a variety of financial risks, primarily credit risk, market risk and liquidity risk. The Group's risk management program focuses on understanding drivers of financial risk and seeks to minimise potential adverse effects on financial performance of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework through the work of the Audit and Risk Committee. The Audit and Risk Committee is responsible for developing and monitoring risk management policies. Risk management procedures are established by the Audit and Risk Committee and carried out by management to identify and analyse the risks faced by the Group and to set controls and monitor risks. These are discussed individually below.

NOTE 16. FINANCIAL INSTRUMENTS (continued)

MARKET RISK

Market risk is the risk that changes in market prices will affect the Group's income or the value of holdings in its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk of the Group is concentrated in interest rate risk.

Factoring, invoice finance and trade finance are lent on variable interest rates and are financed by variable rate borrowings, which mitigate the Group's exposure to interest rate risk. The interest payable under the majority of the senior facilities provided to the Funding Vehicles, the Mezzanine Facility and the Corporate Debt Facilities are linked to the Bank Bill Swap Bid Rate ("BBSY") – a variable floating interest rate benchmark. The return on the products are sufficient to mitigate adverse interest rate movements on the borrowings.

The impact of potential increase/decrease in borrowing costs per annum in the event of a +/- 30bps change in variable interest rates would be immaterial to net profit before tax.

CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, maintain the support of its investors and other business partners, support the future growth initiatives of the Group and to maintain an optimal capital structure to reduce the cost of capital. These objectives are reviewed periodically by the Audit and Risk Committee. The Group is not subject to any externally imposed capital requirements.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is borrowings (corporate debt) less cash and cash equivalents as recognised on the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

FOREIGN CURRENCY RISK

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's revenues, expenses, cash flows, assets and liabilities in regions outside Australia are denominated in foreign currency including New Zealand dollar, United States dollar, Hong Kong dollar and United Kingdom Pound Sterling. In general, the Group manages foreign exchange risk by funding exposure in the currency of that exposure. For example, purchase of USD receivables are funded by USD borrowings, thereby establishing a natural hedge. In order to protect against other specific exchange rate movements in the trade finance segment of the business, the Group has entered into foreign exchange forward contracts. These contracts are used to hedge highly probable forecasted cash flows. However, the amounts exposed to foreign currency risk at year end are not considered material for the Group.

The Group does not hedge its invested capital in overseas operations, considered immaterial, and accepts the foreign currency translation risk on this capital.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is concentrated in receivables.

The Group receives assignment from its clients of their receivables against which the Group pays a cash advance to the client. The Group's primary source of security is the assignment of receivables to it from its clients. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The portfolio of receivables to which the Group is exposed is well diversified across industries and geographies. Additionally, the Group is significantly over-collateralised, typically advancing less than 52 cents to clients for every dollar of invoices assigned to the Group. In the case of default by an underlying debtor which fails to meet its payment obligations, the Group has full recourse to the client. Thus, the Group has protection from the underlying credit risk of the debtor, as well as recourse to clients.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for impairment, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group. The Group obtains guarantees where appropriate to mitigate credit risk. Additionally, invoice finance, factoring assets and trade finance are secured by fixed and floating charges over business assets of each client. The Group retains its security until the loans are repaid. This minimises the Group's credit risk exposure.

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Client receivables reconciliation*		
Receivables	1,642,081	1,533,603
Client control amount	(812,024)	(787,915)
Client receivables	830,057	745,688

* Receivables: the total value of sales invoices which have been issued by clients, and which the clients have agreed to sell (assign) to the Group.

Client receivables: the total value the Group has agreed to advance its clients, based on a portion of the face value of the Receivables.

Client control amount: when debtors pay their invoices and the client receivables amount, interest and fees have been fully repaid, all remaining funds are paid to the client. This amount is referred to as the client control amount.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a supportive and diversified funding model underpinned by long standing relationships with major banks and currently comprises of a mix of warehouse facilities, mezzanine debt, corporate debt and balance sheet cash.

The Group has two forms of liquidity risk; operational liquidity risk and financing liquidity risk.

Operational liquidity risk

The Group manages operational liquidity risk by maintaining cash reserves and available borrowing facilities and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The Group seeks to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's risk management policies include cash flow forecasting, which is reviewed and monitored monthly by management as part of the Group's master budget and having access to funding through credit facilities.

NOTE 16. FINANCIAL INSTRUMENTS (continued)

LIQUIDITY RISK (continued)

Financing liquidity risk

The Group's loans to clients (client receivables) are primarily funded through limited-recourse secured debt facilities (warehouse facilities). Financing (senior facilities) for two of the warehouse facilities are provided by two of Australia's major banks and the third senior facility is provided by a global investment bank. Warehouse facilities of the Group are sourced through the Funding Vehicles. The warehouse facilities are secured against the book of receivables created by the factoring and invoice finance debtors and trade finance clients. Draw downs and repayments in and out of the warehouse facilities occur on a daily basis; repayments into the facilities allow the Group to fund further lending commitments. A formal facility reset occurs on a monthly basis, with daily requirements met by an overdraft facility. The Group aims to have sufficient undrawn capacity in its warehouse facilities to ensure it can continue to fund new lending commitments at all times, which it manages by refinancing warehouse funding on a regular, programmatic basis.

Provided that there are sufficient eligible factoring and invoice finance receivables to secure the loan, no liquidity risk exists until the various warehouse facilities expire. Each of the facilities has an agreed amortisation period of 12 months within which refinancing can occur.

FACILITY TYPE	EXPIRY	FACILITY LIMIT	DRAWN BALANCE AS AT 30/06/2017
Warehouse facilities	Earliest in June 2018	\$1,283 million	\$854 million
Mezzanine debt	June 2019	\$60 million	\$50 million
Corporate debt	December 2018	\$70 million	\$59 million

Covenants

The Group has various financial and non-financial covenants under its financing facilities that can affect matters such as funding availability, repayments and the liabilities of the Group. Receivables funded within the senior facilities are tested monthly for compliance with these covenants. If the Group's operating results deteriorate, including incurring significant losses, the Group may be unable to meet the covenants governing its indebtedness, which may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, or to reduce debt or raise additional equity.

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

CONSOLIDATED – 2017	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000	REMAINING CONTRACTUAL MATURITIES \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	10,587	–	–	–	10,587
<i>Interest bearing – variable</i>					
Borrowings	–	55,079	–	–	55,079
Total non-derivatives	10,587	55,079	–	–	65,666

CONSOLIDATED – 2016	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000	REMAINING CONTRA- CTUAL MATURITIES \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	25,164	–	–	–	25,164
<i>Interest bearing – variable</i>					
Borrowings	–	–	63,711	–	63,711
Total non-derivatives	25,164	–	63,711	–	88,875

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

FAIR VALUE MEASUREMENT

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. The directors consider that due to the short-term nature and/or the variable rate arrangement of the borrowings, the carrying amounts of financial assets and financial liabilities, which include cash, client receivables, payables and borrowings, are assumed to approximate their fair values.

NOTE 17. REMUNERATION OF AUDITOR

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
<i>Audit services – Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	437,000	514,500
<i>Other services – Deloitte Touche Tohmatsu</i>		
Due diligence – IPO	–	1,315,528
	437,000	1,830,028

NOTE 18. COMMITMENTS

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
<i>Lease commitments – operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,260	3,271
One to five years	3,076	6,246
	5,336	9,517

NOTE 19. RELATED PARTY TRANSACTIONS

PARENT ENTITY

Scottish Pacific Group Limited is the parent entity.

SUBSIDIARIES

Interests in subsidiaries are set out in note 22.

TRANSACTIONS WITH RELATED PARTIES

SP Tradeline (International) Limited

SP Tradeline (UK) Limited (Scottish Pacific UK) and Scottish Pacific Trade Limited (Scottish Pacific HK) have entered into a paying and collecting agency agreement with SP Tradeline (International) Limited (Scottish Pacific International). The directors and shareholders of Scottish Pacific International are Craig Michie and Ed Bracey, being the directors of Scottish Pacific HK and Scottish Pacific UK respectively, and employees of the Group.

Under the agency agreement, Scottish Pacific International has been appointed as the agent of Scottish Pacific HK and Scottish Pacific UK to maintain and manage the UK bank accounts of Scottish Pacific HK and Scottish Pacific UK (the Trust Accounts). All monies in each Trust Account are held on trust for Scottish Pacific HK and Scottish Pacific UK.

Steelforce Australia Facility with Scottish Pacific

The Group provides a debtor financing facility to Steelforce Australia Limited (Steelforce). Steelforce is a company of which Patrick Elliott is a director and Next Capital is a majority shareholder. The facility is on standard terms that would ordinarily apply to clients of the Group. Neither Patrick Elliott nor Next Capital will have any direct involvement in matters concerning that facility for either Steelforce or the Group. Client receivables due from Steelforce as at 30 June 2017 totalled \$23,782,357.

Onsite Rental Group Facility with Scottish Pacific

The Group provides a debtor financing facility to Onsite Rental Group Pty Limited (Onsite). Onsite is a company of which Patrick Elliott is a director and Next Capital is a majority shareholder. The facility is on standard terms that would ordinarily apply to clients of the Group. Neither Patrick Elliott nor Next Capital will have any direct involvement in matters concerning that facility for either Onsite or the Group. Client receivables due from Onsite as at 30 June 2017 totalled \$2,372,657.

NOTE 20. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	PARENT	
	2017 \$'000	2016 \$'000
Profit/(loss) after income tax	(44)	38,411
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income	(44)	38,411

STATEMENT OF FINANCIAL POSITION

	PARENT	
	2017 \$'000	2016 \$'000
Total current assets	39,144	9,127
Total non-current assets	175,144	199,144
Total assets	214,288	208,271
Total current liabilities	17,502	3,059
Total non-current liabilities	–	20,946
Total liabilities	17,502	24,005
Net assets	196,786	184,266
Equity		
Issued capital	206,959	146,118
Share-based payments reserve	213	108
Retained profits/(accumulated losses)	(10,386)	38,040
Total equity	196,786	184,266

GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

The parent entity had guarantees in relation to the debts of its subsidiaries as at 30 June 2017 arising from the Deed of Cross Guarantee and the Corporate Debt Borrowings.

CONTINGENT LIABILITIES

The parent entity had no contingent liabilities as at 30 June 2017.

CAPITAL COMMITMENTS – PROPERTY, PLANT AND EQUIPMENT

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

NOTE 21. BUSINESS COMBINATIONS

	SCOTTISH PACIFIC BUSINESS FINANCE (UK) LIMITED FAIR VALUE \$'000
Cash and cash equivalents	431
Security deposit	341
Client receivables	1,037
Other receivables	12
Property, plant and equipment	25
Accumulated depreciation	(21)
Other payables	(70)
Loans – other	(1,414)
Net assets acquired	341
Goodwill	854
Acquisition-date fair value of the total consideration transferred	1,195
Representing:	
Cash paid or payable to vendor	1,195
Less: cash and cash equivalents	(431)
	764

Scottish Pacific Business Finance (UK) Limited has a small portfolio of debtor finance clients in addition to their more substantial trade finance portfolio. The acquisition provides the Group with the ability to immediately expand our product offering in the UK while adding more efficient scale. The goodwill of \$854,000 represents both strategic and valuation benefits to the Group.

NOTE 22. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned corporate subsidiaries in accordance with the accounting policy described in note 1:

NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2017 %	2016 %
Tartan Bidco Pty Limited	Australia	100.00%	100.00%
Scottish Pacific Holdings Pty Limited	Australia	100.00%	100.00%
Scottish Pacific Business Finance Pty Limited	Australia	100.00%	100.00%
Benchmark Debtor Finance Pty Limited	Australia	100.00%	100.00%
Scottish Pacific Trade Pty Limited	Australia	100.00%	100.00%
Scottish Pacific (BFS) Pty Limited	Australia	100.00%	100.00%
Integral Collections Pty Limited	Australia	100.00%	100.00%
Scottish Pacific Business Finance Limited	New Zealand	100.00%	100.00%
Scottish Pacific Business Finance Administration Limited	New Zealand	100.00%	100.00%
Scottish Pacific Trade Limited	Hong Kong	100.00%	100.00%
SP Tradeline (UK) Limited	United Kingdom	100.00%	100.00%
Scottish Pacific Business Finance (UK) Limited	United Kingdom	100.00%	–

On 6 January 2017 the Group acquired 100% of the ordinary shares of Scottish Pacific Business Finance (UK) Limited (formerly Sterling Trade Finance Limited). For further details refer to Note 21.

Scottish Pacific Benchmark Master Finance Trust (SPBMT) was established as a special purpose vehicle for the securitisation of the client receivables for Scottish Pacific Business Finance Pty Limited (SPBF) and Benchmark Debtor Finance Pty Limited (BDF). In March 2014 all clients of BDF were sold to SPBF. The Trustee of SPBMT is Perpetual Corporate Trust Ltd and the Trust Manager is ANZ Capel Court Limited.

Scottish Pacific Benchmark New Zealand Trust (SPNZT) was established to provide a vehicle for securitisation of the client receivables of Scottish Pacific Business Finance Limited based in New Zealand. The Trustee of SPNZT is The New Zealand Guardian Trust Company Limited and the Trust Manager is ANZ Capel Court Limited.

Scottish Pacific (BFS) Warehouse Security Trust was established to fund client receivables on 13 April 2016 and operations commenced on 23 June 2016. Scottish Pacific (Paringa) Warehouse Trust 2016 was established to fund client receivables on 13 April 2016 and commenced operating on 3 May 2016. Scottish Pacific (Mezzanine) Funding Trust was established on 22 June 2016 and commenced operating on 23 June 2016, and is funded 50:50 by the Group and external lenders.

NOTE 23. DEED OF CROSS GUARANTEE

The following entities are party to a deed of cross guarantee dated 24 June 2016 under which each entity guarantees the debts of the others:

- Scottish Pacific Group Limited
- Tartan Bidco Pty Limited
- Scottish Pacific Holdings Pty Limited
- Scottish Pacific Business Finance Pty Limited
- Scottish Pacific (BFS) Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Scottish Pacific Group Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

NOTE 24. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

NOTE 25. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Profit after income tax expense for the year	20,442	100
Adjustments for:		
Depreciation and amortisation	770	887
Amortisation of Intangible assets	5,802	2,111
Provision for bad and doubtful debts	1,061	2,251
Change in operating assets and liabilities:		
(Increase)/decrease in client receivables	7,505	(7,441)
(Increase)/decrease in deferred tax assets	(3,166)	(4,279)
Increase/(decrease) in trade and other payables	(15,110)	13,169
Increase/(decrease) in provision for income tax	685	(3,593)
Increase/(decrease) in employee benefits	164	656
Net cash from operating activities	18,153	3,861

NOTE 26. EARNINGS PER SHARE

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Profit after income tax attributable to the owners of Scottish Pacific Group Limited	20,442	100
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	138,235,911	89,695,985
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	–	9,015,427
Weighted average number of ordinary shares used in calculating diluted earnings per share	138,235,911	98,711,412
	CENTS	CENTS
Basic earnings per share	14.79	0.11
Diluted earnings per share	14.79	0.10

Number of potential ordinary shares that are not dilutive as at 30 June 2017: 1,879,374

DIRECTORS' DECLARATION

30 JUNE 2017

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- 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
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Patrick Elliott

Chairman and non-executive director

29 August 2017

Sydney



Peter Langham

CEO and executive director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SCOTTISH PACIFIC GROUP LIMITED



Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Members of Scottish Pacific Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Scottish Pacific Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) 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 for 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 the scope of our audit responded to the Key Audit Matter
<p>Carrying value of goodwill</p> <p>As at 30 June 2017 the Group has recognised Goodwill of \$148.6 million (2016: \$148.3 million) of which \$147 million relates to historical acquisitions as disclosed in note 9. An additional \$0.8 million was recognised in the current financial year as a result of the acquisition of Sterling Trade Finance Limited.</p> <p>The evaluation of the recoverable amount of goodwill requires judgement in determining the recoverable amount of the individual cash generating units (CGUs) to which goodwill has been allocated. The basis of methodology has been disclosed in Note 9.</p>	<p>Our procedures, performed in conjunction with our valuation experts, included, but were not limited to:</p> <ul style="list-style-type: none"> - Understanding the process that management undertook to assess the recoverable amount of the goodwill; - Assessing management's methodology for determining the fair value of the individual CGUs to which goodwill is allocated, including the judgement key assumptions applied in the fair value determination; - Assessing the recoverable amounts of the CGUs to which goodwill is allocated including by reference to publically available market information; - Assessing management's valuation against the requirements of AASB 136; and - Testing the mathematical accuracy of the valuation calculations. <p>We have also assessed the appropriateness of the disclosures included in Note 9 to the financial statements.</p>
<p>Recoverability of client receivables</p> <p>As at 30 June 2017 the Group has a provision for impairment of client receivables of \$4.9m (2016: \$5.3 million) as disclosed in Note 6.</p> <p>The Group recognises both a collective and a specific provision. Significant judgement is required in determining the key assumptions, such as historical loss rates and recoverability on collateral.</p> <p>The Group determines the provision on the basis of the credit policy underlying each portfolio of receivables at the time of origination. Each portfolio was originated under different credit criteria and each portfolio has had a different loss history. The assessment to determine both the specific and collective provision over the portfolios involved significant judgements by management about the future results of each portfolio.</p> <p>Provisions for impairment of client receivables has been noted as an area of management judgement in Note 2.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> - Evaluating and testing the controls relevant to the approval, recording and monitoring of client receivables including the application of credit policies; - Analysing the individual portfolio loss trends; - Assessing the credit monitoring controls over the client receivables portfolio, which provide the basis for determining the provisions for impairment of client receivables. - Testing the accuracy of the loss data for both the collective and specific provisions on a portfolio by portfolio basis; - Assessing the completeness of clients identified as being subject to specific provisions; - Performing a retrospective review of the historic loan loss information for both the specific and collective provisions and compared this to information demonstrated by the Group, and market peers; - Recalculating the provision for impairment of client receivables for a sample of loans assessed on an individual basis taking into consideration expected future cash flows from clients, and/or the realisation of collateral held;



	<ul style="list-style-type: none">- Assessing management's methodology for determining the collective provisioning rate for client receivables; and- Recalculating the collective provision for impairment of client receivables on a portfolio by portfolio basis. <p>We have also assessed the appropriateness of the related disclosures in Notes 2 and 6 to the financial statements.</p>
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Other Information

The directors are responsible for the other information. The other information comprises the Directors' report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the annual report (but does not include the financial report and our auditor's report thereon): Chairman's Message, Chief Executive Officer's Report and Shareholder Information, which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will 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 identified 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Message, Chief Executive Officer's Report and Shareholder Information, if we conclude that there is a material misstatement therein, we are required to communicate that matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Board of Directors for the Financial Report

The directors of the Company 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 ability of the Group 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 has 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:

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- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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 8 to 16 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of the Scottish Pacific Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants
Sydney, 29 August 2017

SHAREHOLDER INFORMATION

30 JUNE 2017

Additional information required by the Australian Securities Exchange (ASX) and not shown elsewhere in this report is as follows. The information is current at 2 August 2017.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES	NUMBER OF ORDINARY SHARES
1 to 1,000	152	75,195
1,001 to 5,000	486	1,486,941
5,001 to 10,000	338	2,633,789
10,001 to 100,000	516	14,027,871
100,001 and over	61	120,967,805
	1,553	139,191,601
Holding less than a marketable parcel	–	–

EQUITY SECURITY HOLDERS

TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest security holders of quoted equity securities are listed below:

ORDINARY SHARES		
	NUMBER HELD	% OF TOTAL SHARES ISSUED
J P MORGAN NOMINEES AUSTRALIA LIMITED	24,660,769	17.72
LENTESCO PACKAGING PTY LTD	17,244,318	12.39
CITICORP NOMINEES PTY LIMITED	15,545,345	11.17
NEXT CAPITAL (SERVICES B) PTY LTD	11,564,113	8.31
NEXT CAPITAL (SERVICES A) PTY LTD	11,564,113	8.31
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,609,971	6.90
NATIONAL NOMINEES LIMITED	7,157,841	5.14
BNP PARIBAS NOMS PTY LTD (DRP)	3,268,202	2.35
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	2,765,260	1.99
LANGHAM INVESTMENTS PTY LTD	2,425,055	1.74
NATIONAL NOMINEES LIMITED (DB A/C)	984,315	0.71
BNP PARIBAS NOMINEES PTY LTD (AGENCY LENDING DRP A/C)	886,687	0.64
INVIA CUSTODIAN PTY LIMITED	875,626	0.63
MR JINYUE ZHANG & MRS TING WU	724,900	0.52
PETER LANGHAM & FIONA LANGHAM	673,554	0.48
SANDHURST TRUSTEES LTD	619,385	0.44
CHRISTOPHER HEDGE & JULIE HEDGE	571,000	0.41
MR IAN MURRAY NICOL	524,898	0.38
ARIKI INVESTMENTS PTY LIMITED	522,500	0.38
MICHO CORPORATE SERVICES PTY LTD	508,841	0.37
Total for Top 20	112,696,693	80.96
Remaining Holders	26,494,908	19.04
Total Issued Capital	139,191,601	100.00

UNQUOTED EQUITY SECURITIES

Scottish Pacific Group Limited has 1,879,374 unquoted options on issue.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

ORDINARY SHARES		
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Next Capital (Services A) Pty Limited as trustee for New Capital Fund IIA and Next Capital (Services B) Pty Ltd as trustee for Next Capital Fund IIB	23,128,226	16.61
Scottish Pacific Group Limited and its subsidiaries	46,668,416	33.53
Industry Super Holdings Pty Ltd	17,244,318	12.50
H.E.S.T Australia Limited as Trustee for Health Employees Superannuation Trust Australia	15,511,241	11.14
Ellerston Capital Limited (Primary Person) and its associates	15,502,494	11.14
Commonwealth Bank of Australia and its related bodies corporate	14,378,741	10.33
Northcape Capital Pty Ltd	7,097,657	5.10

VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

ORDINARY SHARES

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

ON-MARKET BUY BACK

There is no current on-market buy back.

SECURITIES SUBJECT TO VOLUNTARY ESCROW

PERIOD ESCROW ENDS	NUMBER OF SECURITIES SUBJECT TO ESCROW
At 4.15pm on the date on which the Company's audited financials accounts for the financial for the year ended 30 June 2017 are realised to the ASX. However, 25% of the Escrowed Shares will be released from escrow at 4.15pm 10 business days after the first day on which both of the following conditions have been satisfied: <ul style="list-style-type: none"> • Financial results for the Company for the half-year ending 31 December 2016 are released to the ASX (1HY17 Release Date); and • The volume weighted average price for any 10 consecutive trading days following 1HY17 Release date exceeds the offer price under the IPO by more than 20%. 	40,372,544
At 4.15pm on the date on which the Company's audited financials accounts for the financial for the year ended 30 June 2017 are realised to the ASX.	6,295,872
Total of Escrowed Shares	46,668,416

USE OF CASH AND ASSETS

Scottish Pacific Group Limited has used the cash and assets in a form readily convertible to cash at the time of admission to the ASX in a way consistent with its business objectives as stated in its Prospectus.

STOCK EXCHANGE LISTING

Scottish Pacific Group Limited securities are only listed on the ASX.

REGISTERED OFFICE

Level 5,
20 Bond Street
Sydney, NSW, 2000
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Telephone: +61 2 9372 9999
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Telephone: +61 1300 554 474
registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

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CORPORATE DIRECTORY

SCOTTISH PACIFIC GROUP LIMITED

ABN 45 164 013 110

The shares of Scottish Pacific Group Limited are listed on the Australian Securities Exchange under the trade symbol SCO with Sydney being the home exchange.

DIRECTORS

Mr. Patrick Elliott
Mr. Andrew Love
Ms. Katrina Onishi
Mr. Peter Clare
Mr. Peter Langham

COMPANY SECRETARIES

Mr. Chris Hedge
Ms. Emma Lawler

HEAD OFFICE AND REGISTERED OFFICE

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AUDITOR

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NOTICE OF ANNUAL GENERAL MEETING

Wednesday 15th November 2017
10.30AM
Dexus Place
Level 5,
1 Margaret Street
Sydney, NSW 2000

OFFICE LOCATIONS

AUSTRALIA

Sydney

Level 5,
20 Bond Street
Sydney, NSW 2000

Melbourne

Level 9,
333 Collins Street
Melbourne, VIC 3000

Brisbane

Level 18,
10 Eagle Street
Brisbane, QLD 4000

Perth

Ground Floor
88 Collins Street
West Perth, WA 6005

Adelaide

185 Fullarton Road,
Dulwich, SA 5065

NEW ZEALAND

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Auckland

CHINA

Guangzhou

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Zhuijiang New Town
Guangzhou

ENGLAND

London

37–41 Gower Street
London, WC1E 6HH



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BUSINESS FINANCE