**Scottish Pacific Group Limited**
**Appendix 4D**
**Half-year report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Scottish Pacific Group Limited |
| ABN: | 45 164 013 110 |
| Reporting period: | For the half-year ended 31 December 2017 |
| Previous period: | For the half-year ended 31 December 2016 |

## 2. Results for announcement to the market

| | | | | $'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 9.0% | to | 54,329 |
| Profit from ordinary activities after tax attributable to the owners of Scottish Pacific Group Limited | up | 107.6% | to | 17,640 |
| Profit for the half-year attributable to the owners of Scottish Pacific Group Limited | up | 107.6% | to | 17,640 |

| | 2017 Cents | 2016 Cents |
|---|---|---|
| Basic earnings per share | 12.67 | 6.18 |
| Diluted earnings per share | 12.42 | 6.17 |

*Dividends*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Interim dividend declared on 27 February 2018 to holders of ordinary shares | 9.000 | 9.000 |

*Comments*
The profit for the Group after providing for income tax amounted to $17,640,000 (31 December 2016: $8,499,000).

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 34.74 | 34.50 |

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividends

*Current period*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Interim dividend declared on 27 February 2018 to holders of ordinary shares | 9.000 | 9.000 |

*Previous period*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Final dividend paid as at 19 September 2017 to holders of ordinary shares | 8.500 | 8.500 |

## 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Not applicable.

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

The financial information presented for foreign entities which are consolidated is presented in accordance with Australian Accounting Standards.

## 10. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

## 11. Attachments

*Details of attachments (if any):*

The Interim Report of Scottish Pacific Group Limited for the half-year ended 31 December 2017 is attached.

**Scottish Pacific Group Limited**
**Appendix 4D**
**Half-year report**

**12. Signed**

Signed ______________________________ Date: 27 February 2018

Mr P Elliott
Director
Sydney

# Scottish Pacific Group Limited

**ABN 45 164 013 110**

# Interim Report - 31 December 2017

**Scottish Pacific Group Limited**
**Directors' report**
**31 December 2017**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Scottish Pacific Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

## Directors

The following persons were directors of the company during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr P Elliott
Mr P Langham
Mr P Clare
Ms K Onishi
Mr A Love

## Principal activities

During the financial half-year the principal continuing activities of the Group consisted of the provision of debtor finance and the provision of specialised finance.

## Dividends

Dividends paid during the financial half-year were as follows:

| | Consolidated | |
|---|---|---|
| | Half-year ended 31/12/17 | Half-year ended 31/12/16 |
| | $'000 | $'000 |
| Final dividend | 11,831 | 36,328 |

## Review of operations

The profit for the Group after providing for income tax amounted to $17,640,000 (31 December 2016: $8,499,000).

***Operating and Financial Review***

The Board presents its operating and financial review for the half year ended 31 December 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 Group has developed a highly specialised credit underwriting and credit management capability. This expertise is used to provide working capital to a wide range of businesses from those 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 30 years that the Group has been trading. Debtor finance represents over 90% of the Group's total loan exposure and we estimate that the Group continues to hold a market share of around 20% of the debtor finance market within Australia.

The Group also provides specialised finance facilities to clients. Specialised finance comprises secured asset backed lending solutions such as single invoice finance, progress claim finance, bad debt protection and asset finance loans. It also entails the financing of specific transactions involving the purchase of goods by Australian, NZ or UK buyers. The Group's specialised finance businesses are still young and represents less than 10% of the Group's total loan exposure. However, it is an area where the Directors believe further growth can be driven in its own right and as a means to secure new debtor finance customers.

*Integration of recent Acquisitions*

The integration of the staff and clients of the Bibby Australia and New Zealand business and the client portfolios of GE and Suncorp was completed in FY17. The next stage of this integration process commenced in FY18 and comprises a number of facets. Firstly, the operating systems of the three acquisitions and the Scottish Pacific legacy business are being combined onto a single Customer Administration platform. This is being progressively rolled out through the Groups operating centres, with three migrations completed by 28 February 2018. This project remains on track for completion early in FY19. Secondly, the Group is now looking to standardise and streamline the way it services its clients to enhance the customer experience and improve cost efficiency.

*Our staff*

Scottish Pacific is a service business and the key to delivering exceptional service to clients is an engaged and motivated workforce. The management team continue to focus on staff engagement within the business as a key differentiator. The most recent Staff Engagement survey results showed a slight decrease on those of the previous year, reflective of the ongoing changes within the Company. As always, detailed initiatives are being developed off the back of staff surveys to improve staff engagement.

During calendar year 2017, 'unplanned staff turnover' was 17.7%, which is below the national average. Fundraising efforts by staff contributed over $80,000 to various charities and in February 2018, the Group launched its own workplace giving program "ScotPac Gives Back!".

Changes to the Executive team included the appointment of a new CFO and the establishment of a new Chief Customer Officer role. These together with our COO, Head of Debtor Finance and Head of Specialist Finance are bringing a fresh outlook to our business

*New Business and Trading Performance*
The 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 two years ago and continues to be very successful. For the first half of FY18, direct business origination remains strong. Traditional introducer channels continue to also perform well, with broker enquiries up 10% on the corresponding period.

The Company's loan book growth has continued its long term trend that was re-established in the second half of FY17. The average exposure for the six months to December 2017 was 16.1% higher than the six months to December 2016. The renewed focus on client service and the ability to offer more than just debtor finance, has assisted in client attrition levels, which have reduced by some 30% on the corresponding period. Over 10% of debtor finance customers now have at least one other product. The average lend per customer has continued to grow which, whilst increasing overall Group profitability, has changed the net revenue mix with proportionally less management fees and higher net interest income.

The performance of the UK business has been poor and a full review is being completed by the new Head of UK (former CFO Chris Hedge). Whilst the operations represents less than 1% of the Group's loan book, the UK remains a significant opportunity. The Group will not invest further in the UK until a turnaround in performance of the division is evident.

*Bad & Doubtful Debts*
The Group's performance on managing Bad and Doubtful Debts saw a continuation of the trend that developed in FY17, with good recoveries and minimal specific provisions.

The business continues to see benefits from the investment made in credit risk resources (people and systems) and management are committed to maintaining the high standards of lending established over many years.

<u>Funding</u>

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. As at 31 December 2017 the Group had $1,283m in approved warehouse facilities with $341m of availability. Mezzanine facilities are also asset backed and are non-recourse to the Group. Mezzanine facilities provide credit enhancement to the SPVs. As at 31 December 2017 the Group had $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 had $70m in approved corporate debt facilities as at 31 December 2017 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 primary repayments are through debtor collections, the Group also has recourse to the client. Further, surplus collateralisation of assigned receivables and strong underwriting standards mitigate the risk of material loss.

*Major Fraud Events*
The Group is exposed to the risk that counterparties 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 losses, damage to the Group's reputation and impact on the ability to raise funding. Underwriting experience accumulated over 30 years, knowledge of industry and client specific risks, as well as continuously improving credit review processes and a highly diversified loan book act to 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; a position that has been enhanced by the exceptional performance with Bad & Doubtful Debts during the first half of FY18.

*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 continuing to deliver 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.

The existing product portfolio already includes a number of recently introduced products that have not yet achieved the level of market penetration that is believed possible. We expect that earnings from these new products whilst contributing to Group profitability today will grow at a faster rate than the core Debtor Finance segment.

Scottish Pacific will always entertain the possibility of further acquisitions that fit with the Group's strategy, 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.

Management continue to invest in technology as an enabler and to make processes more efficient. A steady stream of new, simpler and lower cost Financial Technology solutions continue to emerge and are helping the business move forward.

Financial Review

*Income Statement*
On a statutory reporting basis, net revenue increased by $4.4m (8.8%) to $54.3m (six months to 31 December 2016: $49.9m).

Total statutory expenses decreased by $5.9m (15.7%) to $31.7m (six months to 31 December 2016: $37.6m).

Significant movements include:

*Income Statement*
The Income Statement for the six months to 31 December 2017 shows the following significant changes when compared to the six months to 31 December 2016:
- Fee income increased $0.9m (2.7%) reflecting increased customer turnover
- Net interest income increased $3.5m (22.4%) with income in-line with growth in the average loan book over the six months of 16.1% together with an improvement of 0.2% in net interest margin.
- Staff costs increased by $1.9m (11.1%) with the biggest driver being the short term incentive scheme payments accrued for FY18. These costs were not incurred in FY17. In addition, the increase incorporates CPI increases in salaries, the additional UK staff costs and a number of strategic new roles filled during the half.
- Office and administration expenses increased with the full impact of public company costs and capability spend on Business Performance Improvement and Risk Management.
- Bad and Doubtful debts were a net recovery of $0.2m
- The implementation of the integrated Customer Administration System saw an additional one-off expense of $0.6m in the first half. The prior corresponding six month period to 31 December 2016 included $8.9m of one-off spend principally related to the IPO.

The Group recorded a statutory net profit before tax of $20.0m (2016: $9.6m). This represented a substantial increase on the FY17 statutory result but, as outlined above, this trading result does not include similar levels of IPO costs incurred in the prior period.

*Balance Sheet*
The Balance Sheet at 31 December 2017 shows the following significant changes when compared to 30 June 2017:
- Cash increased 17.0% from $21.8m to $25.5m
- Client receivables increased 15.5% from $830.1m to $958.8m
- Drawn securitised debt facilities (after restricted cash) increased 16.4% from $757.8m to $882.0m

**Significant changes in the state of affairs**
There were no significant changes in the state of affairs of the Group during the financial half-year.

**Matters subsequent to the end of the financial half-year**
No matter or circumstance has arisen since 31 December 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.

**Environmental Regulation**
The Group is not subject to any significant environmental regulations under Commonwealth and State legislation.

The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group during the period covered by this report.

**Rounding of amounts**
The Company is of a kind referred to in ASIC Corporations ("Rounding in Financials/Directors' Report") Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Mr P Elliott
Director

27 February 2018
Sydney

Deloitte Touche Tohmatsu
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The Board of Directors
Scottish Pacific Group Limited
Level 5, 10 Bond Street
Sydney NSW 2000

27 February 2018

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 review of the financial statements of Scottish Pacific Group Limited for the financial half-year ended 31 December 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 review; and
ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants

**Scottish Pacific Group Limited**
**Contents**
**31 December 2017**



## General information

The financial statements cover Scottish Pacific Group Limited as a Group consisting of Scottish Pacific Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017. The financial statements are presented in Australian dollars, which is Scottish Pacific Group Limited functional and presentation currency.

Scottish Pacific Group Limited is a public company limited by shares, 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 27 February 2018.

**Scottish Pacific Group Limited**
**Condensed statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2017**

| | Note | Consolidated Half-year ended 31/12/17 $'000 | Consolidated Half-year ended 31/12/16 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fee income | | 35,107 | 34,170 |
| | | | |
| Interest income | | 38,781 | 33,341 |
| Interest expense | | (19,559) | (17,648) |
| Net interest income | | 19,222 | 15,693 |
| | | | |
| Net revenue | | 54,329 | 49,863 |
| | | | |
| **Expenses** | | | |
| Employee benefits expense | | (18,837) | (16,953) |
| Office & administration expense | | (8,452) | (7,453) |
| Professional fees | | (1,211) | (10,133) |
| Bad & doubtful debts recovery | | 193 | 230 |
| Depreciation & amortisation | | (3,413) | (3,287) |
| | | | |
| **Operating profit** | | 22,609 | 12,267 |
| | | | |
| Borrowing expense | | (2,565) | (2,639) |
| | | | |
| **Profit before income tax expense** | | 20,044 | 9,628 |
| | | | |
| Income tax expense | 4 | (2,404) | (1,129) |
| | | | |
| **Profit after income tax expense for the half-year attributable to the owners of Scottish Pacific Group Limited** | | 17,640 | 8,499 |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | (213) | 217 |
| | | | |
| Other comprehensive income for the half-year, net of tax | | (213) | 217 |
| | | | |
| **Total comprehensive income for the half-year attributable to the owners of Scottish Pacific Group Limited** | | 17,427 | 8,716 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 10 | 12.67 | 6.18 |
| Diluted earnings per share | 10 | 12.42 | 6.17 |

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

**Scottish Pacific Group Limited**
**Condensed statement of financial position**
**As at 31 December 2017**

| | Note | Consolidated 31/12/17 $'000 | Consolidated 30/06/17 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 25,473 | 21,833 |
| Restricted cash | | 109,720 | 146,648 |
| Client receivables | 5 | 958,814 | 830,057 |
| Current tax asset | 4 | 6,125 | 1,827 |
| Other receivables | | 2,102 | 3,074 |
| Deferred tax | 4 | 7,937 | 8,522 |
| Property, plant and equipment | | 1,462 | 1,785 |
| Intangibles | | 5,714 | 8,614 |
| Goodwill | | 148,587 | 148,587 |
| **Total assets** | | 1,265,934 | 1,170,947 |
| **Liabilities** | | | |
| Trade and other payables | | 11,227 | 10,299 |
| Provisions | | 4,531 | 4,360 |
| Debt facilities | | 991,716 | 904,415 |
| Borrowings | | 55,804 | 55,079 |
| **Total liabilities** | | 1,063,278 | 974,153 |
| **Net assets** | | 202,656 | 196,794 |
| **Equity** | | | |
| Issued capital | | 206,959 | 206,959 |
| Reserves | | 882 | 826 |
| (Accumulated losses)/Retained profits | | (5,185) | (10,991) |
| **Total equity** | | 202,656 | 196,794 |

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

**Scottish Pacific Group Limited**
**Condensed statement of changes in equity**
**For the half-year ended 31 December 2017**

| Consolidated | Issued capital $'000 | Foreign currency reserve $'000 | Share-based payments reserves $'000 | Retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2016 | 146,118 | 890 | - | 16,137 | 163,145 |
| Profit after income tax expense for the half-year | - | - | - | 8,499 | 8,499 |
| Other comprehensive income for the half-year, net of tax | - | 217 | - | - | 217 |
| Total comprehensive income for the half-year | - | 217 | - | 8,499 | 8,716 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs | 60,841 | - | - | - | 60,841 |
| Dividends paid (note 6) | - | - | - | (36,328) | (36,328) |
| Balance at 31 December 2016 | 206,959 | 1,107 | - | (11,692) | 196,374 |

| Consolidated | Issued capital $'000 | Foreign exchange reserve $'000 | Share-based payments reserves $'000 | Retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2017 | 206,960 | 605 | 220 | (10,991) | 196,794 |
| Profit after income tax expense for the half-year | - | - | - | 17,640 | 17,640 |
| Other comprehensive income for the half-year, net of tax | - | (213) | - | - | (213) |
| Total comprehensive income for the half-year | - | (213) | - | 17,640 | 17,427 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Share-based payments | - | - | 266 | - | 266 |
| Dividends paid (note 6) | - | - | - | (11,831) | (11,831) |
| Balance at 31 December 2017 | 206,960 | 392 | 486 | (5,182) | 202,656 |

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

**Scottish Pacific Group Limited**
**Condensed statement of cash flows**
**For the half-year ended 31 December 2017**

| | Note | Consolidated Half-year ended 31/12/17 $'000 | Consolidated Half-year ended 31/12/16 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 73,884 | 67,513 |
| Interest paid on debt facilities | | (19,430) | (17,241) |
| Payments to suppliers and employees (inclusive of GST) | | (22,950) | (44,081) |
| | | 31,504 | 6,191 |
| Interest and other finance costs paid on borrowings (corporate debt) | | (1,951) | (2,025) |
| Security deposits paid | | 56 | 3,468 |
| Income tax paid | | (9,704) | (5,293) |
| Net cash from operating activities | | 19,905 | 2,341 |
| **Cash flows from investing activities** | | | |
| Payments for client receivables | | (128,336) | (131,688) |
| Payments for property, plant and equipment | | (155) | (308) |
| Net cash used in investing activities | | (128,491) | (131,996) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 58,954 |
| Finance lease repayments | | (114) | (95) |
| Proceeds from securitised debt | | 124,171 | 111,570 |
| Repayment of corporate borrowings | | - | (10,000) |
| Dividends paid | 6 | (11,831) | (36,328) |
| Net cash from financing activities | | 112,226 | 124,101 |
| Net increase/(decrease) in cash and cash equivalents | | 3,640 | (5,554) |
| Cash and cash equivalents at the beginning of the financial half-year | | 21,833 | 16,112 |
| Cash and cash equivalents at the end of the financial half-year | | 25,473 | 10,558 |

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

## Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

## 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 in relation to assets, liabilities, contingent liabilities, revenue and expenses. 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. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*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.

*Goodwill and other indefinite life intangible assets*
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 31 December 2017 was $148.6 million (2016: $148.6 million). No impairment loss was recognised during the financial period (2016: nil)

## Note 3. Operating segments

*Identification of reportable operating segments*
For the half-year ended 31 December 2016 the Group was 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 not funded through the Group's limited-recourse funding vehicles.

For the half-year ended 31 December 2017, the Group changed the structure of its internal organisation, causing the composition of its reportable segments to change as follows:

1. **Debtor financing** provided to clients through a range of products including factoring and invoice discounting. Products within this segment are funded through the four limited-recourse funding vehicles of the Group.

2. **Specialised products** provided to clients including Bad Debt Protection, Asset Backed Lending, Progress Claim Finance, Selective Invoice Finance, and cross-border transactions through Tradeline and Import/Export Finance.

The corresponding items of segment information for comparative periods have been presented under the updated reportable operating segments.

The updated reportable operating segments are based on the internal reports that are reviewed and used by the CEO Peter Langham (who is identified as the Chief Operating Decision Maker ('CODM') in assessing performance and in determining the allocation of resources. The CODM reviews profit before tax. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on a monthly basis. There is no aggregation of operating segments.

*Geographic and Customer segments*
Revenue 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.

## Note 3. Operating segments (continued)

| Consolidated - Half-year ended 31/12/17 | Debtor Finance $'000 | Specialised Products $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fee income | 29,639 | 5,468 | 35,107 |
| Interest income | 38,000 | 781 | 38,781 |
| Interest expense | (18,827) | (732) | (19,559) |
| **Total revenue** | 48,812 | 5,517 | 54,329 |
| | | | |
| **Total revenue** | 48,812 | 5,517 | 54,329 |
| Employee benefits expense | (16,139) | (2,698) | (18,837) |
| Office & administration expense | (6,870) | (1,582) | (8,452) |
| Professional fees | (1,140) | (71) | (1,211) |
| Bad & doubtful debts | 199 | (6) | 193 |
| Depreciation and amortisation | (3,373) | (40) | (3,413) |
| Borrowing costs | (2,565) | - | (2,565) |
| **Profit before income tax expense** | 18,924 | 1,120 | 20,044 |
| Income tax expense | | | (2,404) |
| **Profit after income tax expense** | | | 17,640 |
| | | | |
| **Assets** | | | |
| Segment assets | 1,234,665 | 31,269 | 1,265,934 |
| **Total assets** | | | 1,265,934 |
| | | | |
| **Liabilities** | | | |
| Segment liabilities | 1,060,273 | 3,005 | 1,063,278 |
| **Total liabilities** | | | 1,063,278 |

## Note 3. Operating segments (continued)

| Consolidated - Half-year ended 31/12/16 | Debtor Finance $'000 | Specialised Products $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Management Fees | 29,137 | 5,033 | 34,170 |
| Interest income | 32,545 | 796 | 33,341 |
| Interest expense | (17,014) | (634) | (17,648) |
| **Total revenue** | 44,668 | 5,195 | 49,863 |
| | | | |
| **Total revenue** | 44,668 | 5,195 | 49,863 |
| Employee benefits expense | (14,635) | (2,318) | (16,953) |
| Office and administration expense | (6,446) | (1,007) | (7,453) |
| Professional fees | (9,843) | (290) | (10,133) |
| Bad & doubtful debts | 351 | (121) | 230 |
| Depreciation and amortisation | (3,255) | (32) | (3,287) |
| Borrowing costs | (2,639) | - | (2,639) |
| **Profit before income tax expense** | 8,201 | 1,427 | 9,628 |
| Income tax expense | | | (1,129) |
| **Profit after income tax expense** | | | 8,499 |
| | | | |
| **Consolidated - 30/06/17** | | | |
| | | | |
| **Assets** | | | |
| Segment assets | 1,143,926 | 27,021 | 1,170,947 |
| **Total assets** | | | 1,170,947 |
| | | | |
| **Liabilities** | | | |
| Segment liabilities | 968,389 | 5,764 | 974,153 |
| **Total liabilities** | | | 974,153 |

## Note 4. Income tax

| | Consolidated | |
|---|---|---|
| | Half-year ended 31/12/17 $'000 | Half-year ended 31/12/16 $'000 |
| *Income tax expense* | | |
| Current tax | 5,548 | 4,910 |
| Deferred tax - origination and reversal of temporary differences | 578 | (2,102) |
| Adjustment recognised for prior periods | (3,722) | (1,679) |
| Aggregate income tax expense | 2,404 | 1,129 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 20,044 | 9,628 |
| Tax at the statutory tax rate of 30% | 6,013 | 2,888 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenses | 113 | 110 |
| Share capital raising costs | - | (190) |
| | 6,126 | 2,808 |
| Adjustment recognised for prior periods | (3,722) | (1,679) |
| Income tax expense | 2,404 | 1,129 |

| | Consolidated | |
|---|---|---|
| | Half-year ended 31/12/17 $'000 | Half-year ended 31/12/16 $'000 |
| *Amounts credited directly to equity* | | |
| Deferred tax assets | - | (1,574) |

The adjustment recognised for prior periods in the current period relate to additional deductions identified on IPO costs incurred in FY2017.

## Note 4. Income tax (continued)

| | Consolidated 31/12/17 $'000 | Consolidated 30/06/17 $'000 |
|---|---|---|
| *Deferred tax asset* | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Impairment of receivables | 1,329 | 1,454 |
| Provisions | 1,344 | 1,582 |
| Accrued expenditure | 1,351 | 1,131 |
| IPO and other capital costs | 4,798 | 5,927 |
| Property, plant and equipment | 83 | - |
| Borrowing costs | 791 | 1,014 |
| Intangible client relationships | (1,759) | (2,586) |
| Deferred tax asset | 7,937 | 8,522 |
| Movements: | | |
| Opening balance | 8,522 | 5,356 |
| Charged to profit or loss | (578) | (1,103) |
| Credited to equity | - | 1,887 |
| Prior year adjustment | (1) | 642 |
| Deferred tax liability on intangible client relationships | - | 1,740 |
| Unrealised translation adjustments | (6) | - |
| Closing balance | 7,937 | 8,522 |

| | Consolidated 31/12/17 $'000 | Consolidated 30/06/17 $'000 |
|---|---|---|
| *Income tax refund due* | | |
| Income tax refund due | 6,125 | 1,827 |

## Note 5. Client receivables

| | Consolidated 31/12/17 $'000 | Consolidated 30/06/17 $'000 |
|---|---|---|
| Client receivables | 963,242 | 834,907 |
| Less: Provision for impairment of client receivables | (4,428) | (4,850) |
| | 958,814 | 830,057 |

## Note 6. Dividends

*Dividends*
Dividends paid during the financial half-year were as follows:

| | Consolidated Half-year ended 31/12/17 $'000 | Consolidated Half-year ended 31/12/16 $'000 |
|---|---|---|
| Final dividend | 11,831 | 36,328 |

## Note 6. Dividends (continued)

*Franking credits*

| | Consolidated | |
|---|---|---|
| | 31/12/17 $'000 | 30/06/17 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 9,704 | 5,896 |

The above amounts represent the balance of the franking account as at the end of the financial half-year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

## Note 7. Financial instruments

***Fair value measurement***
The Group has considered all financial assets and liabilities not carried at fair value to determine if the carrying value is an accurate reflection of fair value. The directors consider that due to the short term nature and the varying rate 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.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 8. Contingent liabilities

Scottish Pacific Business Finance Pty Limited and Benchmark Debtor Finance Pty Limited are defendants in proceedings before the Supreme Court of New South Wales. The proceedings involve separate claims brought by both the liquidator, and a third party creditor, in respect of a former client. They date back to September 2011 when that client was placed in voluntary administration, and then subsequently entered liquidation.

At present, it is not known how long the proceedings will take to resolve with the best current expectation being for a resolution sometime during FY2019.

There are two separate, yet related, sources of uncertainty affecting any estimate of potential economic loss. Firstly, the initial claims are being denied completely whereby it is possible that no economic loss may arise; and secondly, insurance recoveries are contemplated in the event that any Group economic loss is incurred in the claim.

Based on these uncertainties, and given it is possible but not probable that economic loss may arise, no provision has been raised in respect of this matter in the financial statements.

## Note 9. Events after the reporting period

No matter or circumstance has arisen since 31 December 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 10. Earnings per share

| | Consolidated | |
|---|---|---|
| | Half-year ended 31/12/17 $'000 | Half-year ended 31/12/16 $'000 |
| Profit after income tax attributable to the owners of Scottish Pacific Group Limited | 17,640 | 8,499 |

## Note 10. Earnings per share (continued)

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | 12.67 | 6.18 |
| Diluted earnings per share | 12.42 | 6.17 |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 139,191,601 | 137,432,071 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 2,802,117 | 198,268 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 141,993,718 | 137,630,339 |

**Scottish Pacific Group Limited**
**Directors' declaration**
**31 December 2017**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with accounting standards.

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Mr P Elliott
Director

27 February 2018
Sydney

Deloitte.

Deloitte Touche Tohmatsu
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# Independent Auditor's Review Report to the Board of Scottish Pacific Group Limited

We have reviewed the accompanying half-year financial report of Scottish Pacific Group Limited, which comprises the condensed statement of financial position as at 31 December 2017, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year period.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

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

Deloitte.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Scottish Pacific Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Scottish Pacific Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants
Sydney, 27 February 2018