**Scottish Pacific Group Limited**
**Appendix 4E**
**Preliminary final report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Scottish Pacific Group Limited |
| ABN: | 45 164 013 110 |
| Reporting period: | For the year ended 30 June 2018 |
| Previous period: | For the year ended 30 June 2017 |

## 2. Results for announcement to the market

| | | | | $'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 8.3% | to | 108,608 |
| Profit from ordinary activities after tax attributable to the owners of Scottish Pacific Group Limited | up | 63.1% | to | 33,331 |
| Profit for the half-year attributable to the owners of Scottish Pacific Group Limited | up | 63.1% | to | 33,331 |

| | 2018 Cents | 2017 Cents |
|---|---|---|
| Basic earnings per share | 23.95 | 14.79 |
| Diluted earnings per share | 23.91 ` | 14.79 |

*Dividends*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Interim dividend for the half year 31 December 2017 | 9.000 | 9.000 |
| Final dividend for the year ended 30 June 2018 (to be paid on 19 September 2018) | 10.000 | 10.000 |

*Comments*
The profit for the Group after providing for income tax amounted to $33,331,000 (30 June 2017: $20,157,000).

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 148.44 | 135.19 |

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

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## 6. Dividends

*Current period*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Interim dividend (paid on 23 March 2018) | 9.000 | 9.000 |
| Final dividend (declared on 28 August 2018, record date of 5 September, payment date 19 September 2018) | 10.000 | 10.000 |

*Previous period*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Interim dividend (paid on 22 March 2017) | 8.000 | 8.000 |
| Final dividend (declared on 29 August 2017, record date of 7 September, payment date 22 September 2017) | 8.500 | 8.500 |

## 7. Dividend reinvestment plans

Not applicable.

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## 8. Details of associates and joint venture entities

Not applicable.

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## 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.

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## 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.

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## 11. Attachments

*Details of attachments (if any):*

The Preliminary Final Report of Scottish Pacific Group Limited for the year ended 30 June 2018 is attached.

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Date: 28 August 2018

# Scottish Pacific Group Limited

**ABN 45 164 013 110**

## Financial Statements - 30 June 2018

**Scottish Pacific Group Limited**
**Directors' report**
**30 June 2018**

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 the financial year ended 30 June 2018.

## Directors

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

<u>Patrick Elliott</u>
*Non-Executive Chairman*

Patrick was appointed to the board on 29 May 2013.

He is a founding Partner of private equity firm Next Capital where he is a director of a number of portfolio companies.

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 financial services, 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.

Patrick holds a Master of Business Administration (Hons) from IMD (Switzerland) and a Bachelor of Commerce / Law from The University of New South Wales.

*Special responsibilities:*

Chair - Remuneration & Nominations Committee
Member - Audit and Risk Committee

<u>Peter Langham</u>
*Chief Executive Officer and Executive Director*

Peter has over 34 years of experience in the Debtor Finance industry with experience in audit and credit, international factoring, client management and sales.

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.

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.

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.

Peter has remained CEO since 2005.

<u>Peter Clare</u>
*Independent Non-Executive Director*

Peter was appointed to the board on 18 December 2014.

Peter is the former CEO of Westpac New Zealand and prior to that, held numerous senior roles within Westpac and St. George.

Peter holds a Master of Business Administration from Macquarie University and a Bachelor of Commerce from The University of New South Wales.

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").

*Special responsibilities:*
Member - Remuneration & Nominations Committee

*Directorships of other listed companies:*

Change Financial Limited CCA.AX (Chairman) – Since April 2015
Dubber Corporation Limited DUB.AX (Chairman) - Since December 2017
Rubik Financial Ltd – July 2016 to May 2017
Reffind Limited (Chairman) – April 2015 to November 2016

<u>Katrina Onishi</u>
*Independent Non-Executive Director*

Katrina was appointed to the board on 9 June 2016.

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

**Company Secretaries**
David Rose was appointed as Company Secretary on 14 November 2017 after taking on the Group CFO role in November 2017. He holds a Bachelor of Science Degree (First Class) from the University of Manchester (UK). David is a member of the Institute of Chartered Accountants in England & Wales, with over 20 years of experience working in Financial Services as a CFO/Group Accountant with Commonwealth Bank and NAB; and as a Financial Services Partner at PwC. He attended Board Meetings from November 2017 to June 2018.

Emma Lawler was appointed as Company Secretary in August 2016 and has over 20 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 July 2017 to June 2018.

Chris Hedge was appointed as Company Secretary in January 2016 and ceased as company secretary on 13 November 2017. Chris attended meetings from July 2017 to October 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 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 was paid to holders of ordinary shares in the Company on 22 September 2017.

In respect of the financial year ended 30 June 2018, an interim dividend of 9.0 cents per share (total of $12.5 million) franked to 100% at 30% corporate income tax rate was paid to holders of ordinary shares in the Company on 22 March 2018.

A final dividend of 10.0 cents per share (total of $13.9 million) franked to 100% at 30% corporate income tax rate payable to holders of ordinary shares in the Company was declared on 28 August 2018.

**Review of operations**
The profit for the Group after providing for income tax amounted to $33.3m (FY17: $20.4m).

The Board presents its operating and financial review for the year ended 30 June 2018 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 at least 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 represent 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 Group's operating centres, with the largest and most complex legacy operating system fully migrated in FY18. This project remains on track for completion in first half of 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 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. 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 have been developed off the back of staff surveys to improve staff engagement. Several new employee benefits have been launched including a Wellness Program which aims to encourage and support our people to be and feel their best both at work and at home. During FY18, 'unplanned staff turnover' was 16.6%, which is in line with the national average.

In January 2018, the Group launched its own workplace giving program "ScotPac Gives Back!". Fundraising efforts by staff along with contributions to the new workplace giving program contributed over $140,000 to our Charity Partners: The Black Dog Institute, RedKite and The Salvation Army as well as 10 other charities across Australia and New Zealand.

*New Business and Trading Performance*
The majority of the Group's new clients are referred by third parties (e.g. 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 three years ago and continues to be very successful. Direct business is now contributing more than 20% of new business on a sustained basis. Traditional introducer channels continue to also perform well, with broker enquiries as a percentage of total enquires growing 7% on the prior corresponding period.

Principal Activities and Review of Operations (continued)

The Company's loan book growth has continued its strong long term trend. The average exposure for the financial year to June 2018 was 15% higher than the prior corresponding period. The renewed focus on client service and the ability to offer more than just debtor finance has assisted in reducing client attrition down 28% on the prior corresponding period. Approximately 13% 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 weaker than expected leading into and across FY18. Whilst the operations represents less than 1% of the Group's loan book, the UK remains a significant opportunity. As a result of past performance, a change in leadership of the UK business was made appointing Chris Hedge (former CFO) to develop and lead a turnaround plan which was approved by the Board in February 2018. Under this Plan the UK sales force has been bolstered with an experienced sales manager and a refocused sales pipeline, an increase of products offered and more competitive pricing.

*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. As a result of ongoing low historic losses, the collective provision has been adjusted down by $1.1m in FY18 to provide coverage at 0.30%. 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.

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 the Group. As at 30 June 2018 the Group had $1,334m in approved warehouse facilities with $342m 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 30 June 2018 the Group had $60m in approved mezzanine facilities, with $50m drawn and $10m available.

Corporate Debt facilities fund a range of general corporate expenses, working capital needs and new products not funded through the existing warehouse facilities. This debt is guaranteed by and has recourse to the Group. The Group had $70m in approved corporate debt facilities as at 30 June 2018, with $59m drawn and $11m available.

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.

Principal Risks (continued)

*Funding risk*
A loss of or adverse impact on any one of the Group'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 Group's 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 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 will grow at a faster rate than the core debtor finance segment.

The Group 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 $8.3m (8.3%) to $108.6m (FY17: $100.3m). Total statutory expenses decreased by $5.5m (7.6%) to $67.3m (FY17: $72.8m).

Significant movements include:

- Fee income increased $1.8m (2.6%) reflecting increased customer turnover and a slight reduction in margins.
- Net interest income increased $6.5m (20.3%) with income in-line with growth in the average loan book over the year of 15.0% together with an improvement of 0.17% in net interest margin.
- Staff costs increased by $4.0m (11.8%) with the biggest drivers being payment of Short Term Incentives and a number of strategic new roles filled during the year.
- 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 had an overall recovery of $102k, including a $1.1m downward adjustment to reduce the historical collective provision to 0.30% to align with lower actual historical loss rates.
- The implementation of the integrated Customer Administration System saw an additional one-off expense of $0.6m for the year, with a further $1.2m of development work capitalised and to be amortised once all migration activity is complete. The prior corresponding period included $8.9m of one-off spend principally related to the IPO.

Financial Review (continued)

The Group recorded a statutory net profit before tax of $41.3m (FY17: $27.5m). 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 30 June 2018 shows the following significant changes when compared to 30 June 2017:

- Cash decreased 34.9% from $21.8m to $14.2m mainly supporting new products and client facilities not funded by the warehouses due to the nature of the security. This adds income but most importantly helps win and retain clients.
- Client receivables increased 22.7% from $830.1m to $1,018.6m.
- Drawn securitised debt facilities (after restricted cash) increased 21.3% from $757.8m to $919.2m

**Significant changes in the state of affairs**
There were no 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 2018 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 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 Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

| | Board | | Audit & Risk Committee | | Remuneration & Nomination Committee | | Special Purpose Committee to approve financial results | |
|---|---|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held | Attended | Held |
| Patrick Elliott | 11 | 11 | 4 | 4 | 3 | 3 | 2 | 2 |
| Peter Langham | 11 | 11 | - | - | - | - | - | - |
| Katrina Onishi | 11 | 11 | 4 | 4 | - | - | - | - |
| Andrew Love | 11 | 11 | 4 | 4 | - | - | 2 | 2 |
| Peter Clare | 11 | 11 | - | - | 3 | 3 | - | - |

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 FY18 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 |
| Katrina Onishi | Independent non-executive director |
| Andrew Love | Independent non-executive director |

**Senior executives**

| *Name* | *Position* |
|---|---|
| Peter Langham | Chief Executive Officer (CEO) and director |
| David Rose (from 14 Nov 2017) | Chief Financial Officer (CFO) |
| Chris Hedge (to 14 Nov 2017) | Chief Financial Officer (CFO) |
| Steven Davies | Chief Operating Officer (COO) |

Except as noted, all non-executive directors and senior executives have held their positions for the whole of FY18.

***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
- 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 FY18.

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, consisting of dividends and growth in share price, and delivering constant or increasing return on assets
- focusing the executive on key non-financial drivers of value, particularly customer net promoter score (NPS)
- 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
- 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 |
| • Reviewed annually<br>• Based on individual and business unit performance<br>• Benchmarked against market remuneration | • Determined based on financial targets set by the Board<br>• Maximum incentive as a proportion of base salary range from 30% to 40%<br>• Delivered in cash | • Grant made in the form of options that may be converted into share upon vesting<br>• LTI award is subject to a compound growth in Earnings Per Share (EPS) performance condition<br>• Participant must be employed by the Group on the relevant vesting date<br>• 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 FY18*

The following table shows the Group's financial performance in FY18. These financial measures are relevant to the discussion of performance conditions for senior executives.

| | Share performance | | Earnings performance | | Dividend |
|---|---|---|---|---|---|
| **Year** | **Opening share price ($)** | **Closing share price ($)** | **EPS ($)** | **NPAT ($,000)** | **Cents per share** |
| **FY17** | 3.20 * | 2.71 | 14.79 | 20,442 | 16.5 |
| **FY18** | 2.71 | 3.20 | 23.95 | 33,331 | 19.0 |

* FY17, 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.

<table>
<tr><td>Participation</td><td></td><td>Senior executives and other members of the management team are eligible to participate in the STI program.</td></tr>
<tr><td>Performance period</td><td></td><td>1 July 2017 to 30 June 2018.</td></tr>
<tr><td>Performance assessment finalised</td><td></td><td>Shortly after the release of the audited results of FY18.</td></tr>
<tr><td>Maximum incentive as a proportion of base salary</td><td></td><td>30% - 40%</td></tr>
<tr><td>Performance condition</td><td></td><td>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.<br><br>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:<ul><li>having economic profit as a core component of plan design</li><li>attracting and retaining high calibre executives</li></ul></td></tr>
<tr><td>STI opportunity</td><td></td><td>The STI opportunities of the KMP are set out below:<table>
<tr><td></td><td colspan="3">Level of performance</td></tr>
<tr><td></td><td>Threshold (95% of target NPAT</td><td>Target (100% of target NPAT)</td><td>Stretch (110% of target NPAT)</td></tr>
<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>David Rose</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>
</table></td></tr>
<tr><td>Eligibility requirements</td><td></td><td><ul><li>An employee of the Group at payment date</li><li>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)</li><li>Performance appraisal completed with relevant manager</li><li>Not be under any form of performance management</li><li>Not be a member of another Group cash based incentive scheme (e.g. any Sales Incentive Commission Plan)</li></ul></td></tr>
<tr><td>Option for discretion</td><td></td><td><ul><li>The CEO may adjust the portion of the STI awarded to other senior executives</li><li>The STI is at the discretion of the CEO and the Board and is subject to change or cancellation at any time</li></ul></td></tr>
<tr><td>Payment date</td><td></td><td>Payments delivered in October 2018 on awarding.</td></tr>
</table>

*Percentage of STI payable and forfeited for senior executives for FY18*

The table below details the STI awards payable in cash to senior executives, as well as the percentage of the maximum that was awarded and forfeited.

| Senior executives | Max. STI opportunity | Actual STI awarded | Actual STI awarded as % of max. STI | % of max. STI award forfeited |
|---|---|---|---|---|
| Peter Langham | $180,507 | $108,304 | 60% | 40% |
| David Rose (pro rata) | $87,836 | $52,702 | 60% | 40% |
| Chris Hedge (pro rata) | $48,495 | $29,097 | 60% | 40% |
| Steven Davies | $92,233 | $55,340 | 60% | 40% |

*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).

| | |
|---|---|
| Participation | Senior executives and other selected employees of the Group are eligible to participate in the LTI scheme. |
| Grants | 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.<br><br>Options of an amount up to 2,808,147 shares were granted under the FY18 grant. The value of the Options granted varied between the participants.<br>- Peter Langham in his capacity as CEO was granted 528,859 Options.<br>- Chris Hedge in his capacity as CFO was granted 381,953 Options, and subsequently forfeited 239,472 Options on 14 November 2017.<br>- David Rose in his capacity as CFO was granted 258,070 Options on 14 November 2017.<br>- Steven Davies in his capacity as COO was granted 180,660 Options.<br>- Other senior management* were collectively granted 1,698,077 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. |
| Exercise price | $2.80 (5 day VWAP at 20 August 2017) |
| Performance period | Five years following the date of grant of the Options to the relevant participant. |
| Expiry of Options | Options will expire on a date fixed in the offer letter to the particular employee. On the expiry date for an Option, the Option will lapse (unless it has been validly exercised). |

* Includes options issued to Chris Hedge in his role as Head of UK.

<table>
<tr><td>Performance (vesting) conditions</td><td>
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:
<table>
<tr><th>EPS performance condition<br>(annual compounding EPS)</th><th>% of vesting entitlement that will vest</th></tr>
<tr><td>Less than 8%</td><td>Nil</td></tr>
<tr><td>8% - 15%</td><td>The Options will vest on a straight line pro rata basis between 30% and 100%</td></tr>
<tr><td>Greater than 15%</td><td>100% of the Options will vest</td></tr>
</table>
<br>
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:
<ul>
<li>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;</li>
<li>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</li>
<li>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.</li>
</ul>
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)).<br><br>
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.<br><br>
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:
<ul>
<li>focusing on sustained growth in shareholder wealth</li>
<li>having economic profit as a core component of plan design</li>
</ul>
The inclusion of Relative TSR as a vesting condition was considered but rejected due to a lack of a suitable peer group or index.
</td></tr>
<tr><td>Measurement of performance conditions</td><td>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. These performance conditions are retested annually.</td></tr>
<tr><td>Cessation of employment of holders of Options</td><td>If the participant ceases employment, unless the Board determines otherwise, any unvested Options will lapse or be forfeited as appropriate.</td></tr>
<tr><td>Restrictions on Options</td><td>Except as permitted by the Board, a participant must not sell, transfer, encumber, hedge or otherwise deal with Options.<br><br>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</td></tr>
</table>

*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 14 November 2018.

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 FY18 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% |
| David Rose (annualised) | 50% | 20% | 30% | 100% |
| Chris Hedge (annualised) | 50% | 20% | 30% | 100% |
| Steven Davies | 62% | 19% | 19% | 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 FY18 | Peter Langham - $451,268 per annum base salary including superannuation<br>David Rose - $350,000 per annum base salary including superannuation (annualised)<br>Steven Davies - $282,379 per annum base salary including superannuation<br>Chris Hedge - $325,378 per annum base salary including superannuation (annualised) |
| Periods of notice | There is a six month period required to terminate the employment contracts of Peter Langham, David Rose, 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.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments* | |
|---|---|---|---|---|---|---|---|
| **2018** | **Cash salary and fees $** | **Cash bonus $** | **Other benefits $** | **Super-annuation $** | **Long service leave $** | **Equity-settled $** | **Total $** |
| *Non-executive directors:* | | | | | | | |
| Patrick Elliott | 197,500 | - | - | - | - | - | 197,500 |
| Peter Clare | 107,500 | - | - | 10,213 | - | - | 117,713 |
| Katrina Onishi | 107,500 | - | - | 10,213 | - | - | 117,713 |
| Andrew Love | 115,000 | - | - | 10,925 | - | - | 125,925 |
| *Senior executives:* | | | | | | | |
| Peter Langham | 431,219 | - | - | 20,049 | 7,187 | 108,925 | 567,380 |
| David Rose** | 201,778 | - | - | 19,169 | 3,388 | 26,351 | 250,686 |
| Chris Hedge** | 133,875 | | | 12,718 | 2,120 | 78,304 | 227,017 |
| Steven Davies | 253,756 | - | 19,231 | 28,623 | 4,305 | 35,568 | 341,483 |
| | 1,548,128 | | 19,231 | 111,910 | 17,000 | 249,148 | 1,945,417 |

* This represents the value recognised in reserves in FY18 for the Options granted to senior executives.

** The benefits to David Rose and Chris Hedge are for the period they were members of the KMP in FY18.

***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 FY18

| Name | Opening balance | From options exercised | Shares purchased | Shares sold | Closing balance |
|---|---|---|---|---|---|
| *Non-executive directors* | | | | | |
| Patrick Elliott | 23,800,121 | - | 225,000 | 23,128,226 | 896,895 |
| Peter Clare | 249,300 | - | - | - | 249,300 |
| Katrina Onishi | 40,000 | - | - | - | 40,000 |
| Andrew Love | 66,250 | - | - | - | 66,250 |
| *Senior executives* | | | | | |
| Peter Langham | 3,535,109 | - | 96,857 | - | 3,631,966 |
| Chris Hedge | 571,000 | - | - | - | 571,000 |
| Steven Davies | 18,500 | - | 76,900 | - | 95,400 |

*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 |
|---|---|---|---|---|
| *FY 2018 LTI grants* | | | | |
| 13-Oct-2017 | 30 September 2020 | 30 June 2023 | $2.80 | $0.54 |
| 13-Oct-2017 | 30 September 2021 | 30 June 2023 | $2.80 | $0.53 |
| 13-Oct-2017 | 30 September 2022 | 30 June 2023 | $2.80 | $0.51 |

The following table sets out the movement in options (from the LTI scheme) held by senior executives in FY18.

| Name | Opening balance | Granted | Value granted | Vested | Forfeited | Closing balance |
|---|---|---|---|---|---|---|
| *Senior executives* | | | | | | |
| Peter Langham | 456,081 | 528,859 | $270,000 | - | - | 984,940 |
| David Rose | - | 258,070 | $131,753 | - | - | 258,070 |
| Chris Hedge | 329,391 | 381,953 | $195,000 | - | 239,472 | 471,872 |
| Steven Davies | 155,830 | 180,660 | $92,233 | - | - | 336,490 |

No options were granted to non-executive directors in FY18.

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 the by 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**
There were no non-audit services provided during the financial year by the auditor.

**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 Scottish Pacific Group Limited (**Scottish Pacific** or the **Company**), including adopting appropriate policies and procedures designed to ensure that Scottish Pacific 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 Company. In conducting the business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, 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 Company in the markets in which it participates.

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

Details of Scottish Pacific's key governance policies and the charters for the Board and each of its committees are available on Scottish Pacific's website under "Investors – Corporate Governance" at https://investors.scottishpacific.com/investors/.

The Board has approved a Corporate Governance Statement which reports against the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (**ASX Principles**) and the practices detailed in the Corporate Governance Statement are current as at 31 July 2018. It is available on the Scottish Pacific website under "Investors – Corporate Governance" at https://investors.scottishpacific.com/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

Peter Langham
CEO and executive director

28 August 2018
Sydney

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Scottish Pacific Group Limited
Level 5, 20 Bond Street
Sydney NSW 2000

28 August 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 audit of the financial statements of Scottish Pacific Group Limited for the financial year ended 30 June 2018, 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

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants

## 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 2018. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

The Group's ordinary shares are publicly traded on the Australian Securities Exchange (ASX). 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 28 August 2018. The directors have the power to amend and reissue the financial statements.

**Scottish Pacific Group Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2018**

| | Note | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fee income | | 69,901 | 68,116 |
| Interest income | | 78,921 | 67,878 |
| Interest expense | | (40,214) | (35,694) |
| | | 38,707 | 32,184 |
| Net revenue | | 108,608 | 100,300 |
| **Expenses** | | | |
| Employee benefits expense | | (37,769) | (33,793) |
| Office & administration expense | | (16,422) | (14,691) |
| Professional fees | | (1,318) | (11,418) |
| Bad & doubtful debts expense | | 102 | (1,061) |
| Depreciation & amortisation expense | | (6,676) | (6,572) |
| **Operating profit** | | 46,525 | 32,765 |
| Borrowing expense | | (5,189) | (5,256) |
| **Profit before income tax expense** | | 41,336 | 27,509 |
| Income tax expense | 4 | (8,005) | (7,067) |
| **Profit after income tax expense for the year attributable to the owners of Scottish Pacific Group Limited** | | 33,331 | 20,442 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 392 | (285) |
| Other comprehensive income for the year, net of tax | | 392 | (285) |
| **Total comprehensive income for the year attributable to the owners of Scottish Pacific Group Limited** | | 33,723 | 20,157 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 27 | 23.95 | 14.79 |
| Diluted earnings per share | 27 | 23.91 | 14.79 |

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

**Scottish Pacific Group Limited**
**Statement of financial position**
**As at 30 June 2018**

| | Note | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 14,224 | 21,833 |
| Restricted cash | 5 | 122,826 | 146,648 |
| Client receivables | 6 | 1,018,628 | 830,057 |
| Other receivables | 7 | 2,471 | 3,074 |
| Deferred tax | 4 | 7,926 | 8,522 |
| Property, plant and equipment | | 1,279 | 1,785 |
| Intangibles | 8 | 3,975 | 8,614 |
| Goodwill | 9 | 148,587 | 148,587 |
| **Total assets** | | 1,319,916 | 1,169,120 |
| **Liabilities** | | | |
| Trade and other payables | 10 | 10,513 | 10,299 |
| Current tax payables | 4 | 492 | (1,827) |
| Provisions | 11 | 4,931 | 4,360 |
| Debt facilities | | 1,042,049 | 904,415 |
| Borrowings | 12 | 55,315 | 55,079 |
| **Total liabilities** | | 1,113,300 | 972,326 |
| **Net assets** | | 206,616 | 196,794 |
| **Equity** | | | |
| Issued capital | 13 | 206,959 | 206,959 |
| Reserves | 14 | 1,677 | 826 |
| Accumulated losses | | (2,020) | (10,991) |
| **Total equity** | | 206,616 | 196,794 |

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

**Scottish Pacific Group Limited**
**Statement of changes in equity**
**For the year ended 30 June 2018**

| Consolidated | Share capital $'000 | Foreign currency translation reserve $'000 | Share-based payments reserve $'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 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| 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 |

| Consolidated | Issued capital $'000 | Foreign currency translation reserve $'000 | Share-based payments reserve $'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 year | - | - | - | 33,331 | 33,331 |
| Other comprehensive income for the year, net of tax | - | 392 | - | - | 392 |
| Total comprehensive income for the year | - | 392 | - | 33,331 | 33,723 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Share-based payments | - | - | 458 | - | 458 |
| Dividends paid (note 15) | - | - | - | (24,359) | (24,359) |
| Balance at 30 June 2018 | 206,960 | 997 | 679 | (2,019) | 206,616 |

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

**Scottish Pacific Group Limited**
**Statement of cash flows**
**For the year ended 30 June 2018**

| | Note | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 108,438 | 100,670 |
| Payments to suppliers and employees (inclusive of GST) | | (55,890) | (73,575) |
| | | 52,548 | 27,095 |
| Interest and other finance costs paid on borrowings (corporate debt) | | (3,961) | (4,027) |
| Security deposit paid | | 126 | 4,117 |
| Income taxes paid | | (5,090) | (9,032) |
| Net cash from operating activities | 25 | 43,623 | 18,153 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of subsidiary, net of cash acquired | | - | (764) |
| Proceeds from /(payments to) client receivables | | (187,649) | (81,744) |
| Payments for property, plant and equipment | | (324) | (428) |
| Net cash used in investing activities | | (187,973) | (82,936) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 58,954 |
| Proceeds from/(payments of) lease financing | | (227) | (227) |
| Repayment of loan on acquisition of subsidiary | | - | (1,414) |
| Proceeds from/(Repayment of) securitised debt | | 161,327 | 70,654 |
| Repayment of corporate borrowings | | - | (10,000) |
| Dividends paid | | (24,359) | (47,463) |
| Net cash from financing activities | | 136,741 | 70,504 |
| Net increase/(decrease) in cash and cash equivalents | | (7,609) | 5,721 |
| Cash and cash equivalents at the beginning of the financial year | | 21,833 | 16,112 |
| Cash and cash equivalents at the end of the financial year | | 14,224 | 21,833 |

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

## Note 1. Significant accounting policies

### Basis of preparation
For the year ended 30 June 2018, 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 2018 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 the Parent entity as at 30 June 2018 and the results of all subsidiaries for the year then ended. The Parent entity and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns 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

The majority of funding for the Group's debtor finance and other products is provided through the use of securitisation structures, with the balance funded from The Group's Balance Sheet. The Group's funding vehicle funding process is set out below:

| | | |
|---|---|---|
| 1 | **Receivables book assigned to the Group** | Scottish Pacific's client agrees to assign 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 assigns 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** | The Funding Vehicle draws down on its funding sources to fund the client receivable amount, typically as follows:<br>• Senior Facilities: Senior secured debt instruments funded by bank lenders – these typically provide up to 90% of the client receivables amount.<br>• Junior notes are issued to a separate special purpose vehicle (Mezzanine Vehicle) or to the Group:<br>o 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.<br>o 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.<br><br>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. |
| 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.

**Note 1. Significant accounting policies (continued)**

*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.

**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.

## Note 1. Significant accounting policies (continued)

*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.

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.

**Note 1. Significant accounting policies (continued)**

### 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 secured over other assets assigned to the Group by factoring clients. These are generally settled within three months. 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.

Client receivables are 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 are 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.

## Note 1. Significant accounting policies (continued)

*Software*
Significant costs associated with the development of software are deferred and amortised on a straight-line basis over the period of their expected benefit, generally being their finite life.

### Impairment of intangible 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 cash-generating unit 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.

### Debt facilities and borrowings
Debt facilities are limited-recourse secured debt facilities obtained by the Group for the purpose of funding its client receivables and growth in new products. 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.

## Note 1. Significant accounting policies (continued)

### 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 the Binomial 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, the probability of vesting together with non-vesting conditions that 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.

## Note 1. Significant accounting policies (continued)

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.

### 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 2018. 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.

## Note 1. Significant accounting policies (continued)

*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 are 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 are 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 has analysed the impact of AASB 9 on our financial results for the year ending 30 June 2018 and has estimated the impact to be a marginal increase to our collective provision for impairment of client receivables. The financial impact from the adoption of AASB 9's new classification changes has currently been determined to be immaterial.

*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. The Group has analysed the impact of AASB 15 on our financial results for the year ending 30 June 2018 and has currently determined the impact to be immaterial.

## Note 1. Significant accounting policies (continued)

*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 impact from the adoption of AASB 16 will be recognition of right of use assets in relation to the premises currently leased by the Group. The financial impact is yet to be assessed by the Group.

Other recently issued or amended Australian Accounting Standards and Interpretations are considered less relevant or are not applicable to the Group for the annual reporting period ended 30 June 2018.

## 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 applied the higher of fair value and value in use calculations to determine whether the Group's goodwill is impaired. These calculations require significant assumptions to be made by management and are done at the CGU level. We calculate the recoverable amount of each CGU and compare it to the net assets, including goodwill, of the CGU.

The carrying amount of goodwill at 30 June 2018 was $148.6 million (FY17: $148.6 million). No impairment loss was recognised during the financial year (FY17: nil).

## Note 3. Operating segments

*Identification of reportable operating segments*
For the year ended 30 June 2017 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. The number of these products are not funded through the Group's limited-recourse funding vehicles.

For the year ended 30 June 2018, 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. Products within this segment are funded through a combination of the four limited-recourse funding vehicles of the Group and from the Group's Balance Sheet.
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*
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.

## Note 3. Operating segments (continued)

| Consolidated - 2018 | Debtor Finance $'000 | Specialised Finance $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Management fees | 58,817 | 11,084 | 69,901 |
| Net Interest Income | 38,322 | 385 | 38,707 |
| **Total revenue** | 97,139 | 11,469 | 108,608 |
| | | | |
| **EBITDA** | 97,139 | 11,469 | 108,608 |
| Employee benefits expense | (33,300) | (4,469) | (37,769) |
| Office and administration expense | (14,500) | (1,922) | (16,422) |
| Professional fees | (1,121) | (197) | (1,318) |
| Bad and doubtful debts expense | 162 | (60) | 102 |
| Depreciation and amortisation | (6,655) | (21) | (6,676) |
| Borrowing costs | (5,189) | - | (5,189) |
| **Profit before income tax expense** | 36,536 | 4,800 | 41,336 |
| Income tax expense | | | (8,005) |
| **Profit after income tax expense** | | | 33,331 |
| | | | |
| **Assets** | | | |
| Segment assets | 1,295,704 | 24,212 | 1,319,916 |
| **Total assets** | | | 1,319,916 |
| | | | |
| **Liabilities** | | | |
| Segment liabilities | 1,102,742 | 10,558 | 1,113,300 |
| **Total liabilities** | | | 1,113,300 |

| Consolidated - 2017 | Debtor Finance $'000 | Specialised Finance $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Management fees | 58,072 | 10,044 | 68,116 |
| Net Interest Income | 32,208 | (24) | 32,184 |
| **Total revenue** | 90,280 | 10,020 | 100,300 |
| | | | |
| **EBITDA** | 90,280 | 10,020 | 100,300 |
| Employee benefits expense | (30,098) | (3,695) | (33,793) |
| Office and administration expense | (13,089) | (1,602) | (14,691) |
| Professional fees | (11,418) | - | (11,418) |
| Bad and doubtful debts expense | (581) | (480) | (1,061) |
| Depreciation and amortisation | (6,538) | (34) | (6,572) |
| Borrowing costs | (5,256) | - | (5,256) |
| **Profit before income tax expense** | 23,300 | 4,209 | 27,509 |
| Income tax expense | | | (7,067) |
| **Profit after income tax expense** | | | 20,442 |
| | | | |
| **Assets** | | | |
| Segment assets | 1,150,561 | 18,559 | 1,169,120 |
| **Total assets** | | | 1,169,120 |
| | | | |
| **Liabilities** | | | |
| Segment liabilities | 961,660 | 10,666 | 972,326 |
| **Total liabilities** | | | 972,326 |

## Note 4. Income tax

| | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 10,715 | 7,343 |
| Deferred tax - origination and reversal of temporary differences | 1,766 | 1,103 |
| Adjustment for prior period | (4,476) | (1,379) |
| Aggregate income tax expense | 8,005 | 7,067 |
| Deferred tax included in income tax expense comprises: | | |
| Decrease in deferred tax assets | 1,766 | 1,103 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 41,336 | 27,509 |
| Tax at the statutory tax rate of 30% | 12,401 | 8,253 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | 176 | 193 |
| Penalties and fines | 5 | - |
| Difference in overseas tax rates | (101) | - |
| Adjustment for prior period | (4,476) | (1,379) |
| Income tax expense | 8,005 | 7,067 |

| | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|
| *Amounts credited directly to equity* | | |
| Deferred tax assets | - | (1,887) |

## Note 4. Income tax (continued)

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| *Deferred tax asset* | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Impairment of client receivables | 1,178 | 1,454 |
| Provisions | 1,602 | 1,582 |
| Accrued expenses | 1,358 | 1,131 |
| IPO and other capital costs | 3,957 | 5,927 |
| Borrowing costs | 580 | 1,014 |
| Deferred revenue and expense | 95 | - |
| Intangible client relationships | (844) | (2,586) |
| Deferred tax asset | 7,926 | 8,522 |
| Movements: | | |
| Opening balance | 8,522 | 5,356 |
| Charged to profit or loss | (1,766) | (1,103) |
| Credited to equity | - | 1,887 |
| Prior year adjustment | (570) | 642 |
| Deferred tax liability on intangible client relationships | 1,740 | 1,740 |
| Closing balance | 7,926 | 8,522 |

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| *Provision for income tax* | | |
| Provision for income tax | 492 | (1,827) |

## Note 5. Restricted cash

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Trust cash | 122,498 | 146,193 |
| Security deposits held against bank guarantees | 328 | 455 |
| | 122,826 | 146,648 |

Trust cash 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.

## Note 6. Client receivables

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Client receivables | 1,022,556 | 834,907 |
| Less: Provision for impairment of client receivables | (3,928) | (4,850) |
| | 1,018,628 | 830,057 |

Movements in provision for impairment of client receivables:

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Collective provision | | |
| Opening balance - collective provision | 3,073 | 2,456 |
| Additional collective provision recognised | 6 | 617 |
| Specific provision | | |
| Opening balance - specific provision | 1,777 | 2,853 |
| Additional specific provision recognised | 683 | 1,299 |
| Write offs | (617) | (1,520) |
| Unused provisions released | (994) | (855) |
| | 3,928 | 4,850 |

The collective provision rate has been adjusted in FY18 to reflect actual loss history experienced by the Group over the last 10 years.

## Note 7. Other receivables

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Other receivables | 1,858 | 2,603 |
| Prepayments | 613 | 471 |
| | 2,471 | 3,074 |

## 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. Software intangible assets capitalised as of 30 June 2018 will be ready for use in the second half of FY19.

**Note 8. Intangibles (continued)**

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Client relationships - at cost | 16,527 | 16,527 |
| Less: Accumulated amortisation | (13,714) | (7,913) |
| | 2,813 | 8,614 |
| Software - at cost | 1,162 | - |
| | 3,975 | 8,614 |

*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 | Total $'000 |
|---|---|---|
| Balance at 1 July 2016 | 14,416 | 14,416 |
| Amortisation expense | (5,802) | (5,802) |
| Balance at 30 June 2017 | 8,614 | 8,614 |
| Amortisation expense | (5,801) | (5,801) |
| Balance at 30 June 2018 | 2,813 | 2,813 |

**Note 9. Goodwill**

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Goodwill | 148,587 | 148,587 |

The Group is comprised of two cash-generating units (CGU), being debtor finance and specialised finance. All major acquisitions are related to debtor finance and the related goodwill from these acquisitions have been allocated to the debtor finance segment. The remainder goodwill balance of $282,000 is allocated to the specialised finance CGU.

The recoverable amount of this CGU has been determined based on a fair value model. These calculations are applied at the CGU level and require key assumptions to be made by management including:

- Discount rate (15%)
- Projected revenue growth rates (debtor finance: 10.9%, specialised finance: 22.7%)
- Terminal growth rate (4.5%)
- Forecast period (debtor finance: 5 years, specialised finance: 10 years)

Management estimate that reasonable changes to the discount rate (+/- 2%) and terminal growth rate (+/- 1%) will not result in the recoverable amount of the CGUs falling below the equity value of the CGUs.

## Note 10. Trade and other payables

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Trade payables - debtor finance | 87 | 244 |
| Trade payables - trade finance | 2,910 | 2,179 |
| General accruals | 2,318 | 2,201 |
| Lease incentive payable | 289 | 576 |
| Other payables | 4,909 | 5,099 |
| | 10,513 | 10,299 |

Refer to note 16 for further information on financial instruments.

## Note 11. Provisions

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Provision for annual leave | 2,085 | 1,830 |
| Provision for long service leave | 1,638 | 1,443 |
| Provision for make good | 836 | 588 |
| Provision for onerous leases | 372 | 499 |
| | 4,931 | 4,360 |

## Note 12. Borrowings

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Loan facility | 55,126 | 54,662 |
| Secured loan | 189 | 417 |
| | 55,315 | 55,079 |

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 IT equipment assets under a chattel mortgage.

## Note 13. Issued capital

| | Consolidated 2018 Shares | Consolidated 2017 Shares | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 139,191,601 | 139,191,601 | 206,959 | 206,959 |

## Note 13. Issued capital (continued)

*Movements in ordinary share capital*

| Details | Date | Shares | $'000 |
|---|---|---|---|
| Balance | 1 July 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 |
| Balance | 30 June 2018 | 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 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Foreign currency translation reserve | 998 | 606 |
| Share-based payments reserve | 679 | 220 |
| | 1,677 | 826 |

## Note 15. Dividends

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

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Final dividend paid on September 2017 (8.5 cents per ordinary share) | 11,831 | - |
| Interim dividend paid on 22 March 2018 (9.0 cents per ordinary share, 2017: 8.0 cents per ordinary share) | 12,527 | 11,135 |
| | 24,358 | 11,135 |

A final dividend of 10.0 cents per share (total of $13.9 million) franked to 100% at 30% corporate income tax rate payable to holders of ordinary shares in the Company was declared on 28 August 2018.

## Note 15. Dividends (continued)

*Franking credits*

| | Consolidated | |
|---|---|---|
| | 2018 $'000 | 2017 $'000 |
| Franking credits available at the reporting date based on a tax rate of 30% | 8,864 | 3,621 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 8,864 | 3,621 |

## 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.

***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.

## Note 16. Financial instruments (continued)

***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 calculated as total borrowings less cash and cash equivalents.

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 and is subject to monitoring and oversight by senior executives. 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.

## Note 16. Financial instruments (continued)

***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 client 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 57 cents to clients for every dollar of client 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 | |
|---|---|---|
| | **2018** | **2017** |
| | **$'000** | **$'000** |
| **Client receivables reconciliation** * | | |
| Receivables | 1,949,321 | 1,642,081 |
| Client control amount | (930,693) | (812,024) |
| Client receivables | 1,018,628 | 830,057 |

* Receivables: the total value of sales invoices which have been issued by clients, and which the clients have assigned to the Group.

Client receivables: the total value the Group has advanced to 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.

**Note 16. Financial instruments (continued)**

***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 budget and having access to funding through credit facilities.

Financing liquidity risk
The Group's loans to clients (client receivables) are primarily funded through warehouse facilities. Financing (senior facilities) for three of the warehouse facilities are provided by two of Australia's major banks and the fourth 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 30/06/2018** |
|---|---|---|---|
| Warehouse facilities | Earliest in June 2019 | $1,334 million | $992 million |
| Mezzanine debt | June 2019 | $60 million | $50 million |
| Corporate debt | December 2019 | $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.

**Note 16. Financial instruments (continued)**

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 - 2018 | 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** | | | | | |
| *Non-interest bearing* | | | | | |
| Trade and other payables | 10,513 | - | - | - | 10,513 |
| *Interest bearing - variable* | | | | | |
| Borrowings | - | 55,315 | - | - | 55,315 |
| Total non-derivatives | 10,513 | 55,315 | - | - | 65,828 |

| 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** | | | | | |
| *Non-interest bearing* | | | | | |
| Trade and other payables | 10,587 | - | - | - | 10,587 |
| *Interest bearing - variable* | | | | | |
| Borrowings | - | 55,079 | - | - | 55,079 |
| Total non-derivatives | 10,587 | 55,079 | - | - | 65,666 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. Repayment of the warehouses is dependent on timing of receipts of cash flows from underlying client trade receivables.

***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 2018 $ | Consolidated 2017 $ |
|---|---|---|
| *Audit services - Deloitte Touche Tohmatsu* | | |
| Audit or review of the financial statements | 497,000 | 437,000 |

## Note 18. 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 initial claims date back to 2011 and are not only denied completely, but are also subject to potential insurance recoveries. Based on this situation, no provision for loss is recognised in the financial statements.

## Note 19. Commitments

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$'000** | **$'000** |
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 2,941 | 2,260 |
| One to five years | 8,781 | 3,076 |
| | 11,722 | 5,336 |

## Note 20. 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 of Scottish Pacific International are Craig Michie and Chris Hedge, 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.

No transactions under this agreement was made in FY18.

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 will be 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.

*Receivable from and payable to related parties*
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*
The Group had loans to Steelforce of $40.3m as at 30 June 2018.

## Note 21. Parent entity information

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

*Statement of profit or loss and other comprehensive income*

| | Parent 2018 $'000 | 2017 $'000 |
|---|---|---|
| Loss after income tax | (9,097) | (44 |
| Other comprehensive income for the year, net of tax | - | - |
| Total comprehensive income | (9,097) | (44 |

*Statement of financial position*

| | Parent 2018 $'000 | 2017 $'000 |
|---|---|---|
| Total current assets | (371) | 39,144 |
| Total non-current assets | 176,838 | 175,144 |
| Total assets | 176,467 | 214,288 |
| Total current liabilities | 29 | 17,502 |
| Total non-current liabilities | 12,769 | - |
| Total liabilities | 12,798 | 17,502 |
| Net assets | 163,669 | 196,786 |
| Equity | | |
| Issued capital | 206,959 | 206,959 |
| Share-based payments reserve | 679 | 213 |
| Accumulated losses | (43,969) | (10,386) |
| Total equity | 163,669 | 196,786 |

*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 2018 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 2018.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

## Note 21. Parent entity information (continued)

*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 represen a distribution of value from subsidiary to parent.

## 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 2018 % | Ownership interest 2017 % |
|---|---|---|---|
| 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% | 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).

Scottish Pacific Benchmark Master Trust (SPBMT) was established as a special purpose vehicle for the securitisation of client receivables for Scottish Pacific Business Finance Pty Limited. Scottish Pacific (BFS) Warehouse Trust 2016 (SPBWT) and Scottish Pacific (Paringa) Warehouse Trust 2016 (SPPWT) were established as special purpose vehicles to fund client receivables of the Group. The Trustee of SPBMT, SPBWT and SPPWT is BNY Mellon Australia and the Trust Manager is BNY Mellon. The servicer of SPBMT, SPBWT and SPPWT is the Company.

Scottish Pacific 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 BNY Mellon. The servicer of SPNZT is the Company.

Scottish Pacific (Mezzanine) Funding Trust 2016 was established to fund client receivables, and is funded 50:50 by the Group and external lenders.

All above trusts are owned 100% by the Group (FY17: 100%).

## 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 2018 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 | |
|---|---|---|
| | 2018 $'000 | 2017 $'000 |
| Profit after income tax expense for the year | 33,331 | 20,442 |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 828 | 770 |
| Amortisation of Intangible assets | 6,862 | 5,802 |
| Provision for bad and doubtful debts | (922) | 1,061 |
| | | |
| Change in operating assets and liabilities: | | |
| (Increase) / decrease in receivables | 732 | 7,505 |
| (Increase) / decrease in deferred tax assets | 596 | (3,166) |
| Increase / (decrease) in trade and other payables | (693) | (15,110) |
| Increase / (decrease) in provision for income tax | 2,318 | 685 |
| Increase / (decrease) in employee benefits | 571 | 164 |
| | | |
| Net cash from operating activities | 43,623 | 18,153 |

## Note 26. Changes in liabilities arising from financing activities

| Consolidated | Finance Lease Liability $'000 | Debt Facilities $'000 | Total $'000 |
|---|---|---|---|
| Balance at 30 June 2017 | 416 | 904,415 | 904,831 |
| Net cash from/(used in) financing activities | (227) | 137,633 | 137,406 |
| Balance at 30 June 2018 | 189 | 1,042,048 | 1,042,237 |

## Note 27. Earnings per share

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Profit after income tax attributable to the owners of Scottish Pacific Group Limited | 33,331 | 20,442 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 139,191,601 | 138,235,911 |
| Adjustments for calculation of diluted earnings per share: | | |
| Dilutive options over ordinary shares | 208,900 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 139,400,501 | 138,235,911 |
| | **Cents** | **Cents** |
| Basic earnings per share | 23.95 | 14.79 |
| Diluted earnings per share | 23.91 | 14.79 |

Number of potential ordinary shares that are not dilutive as at 30 June 2018: 4,153,356 (FY17: 1,879,374)

**Scottish Pacific Group Limited**
**Directors' declaration**
**30 June 2018**

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 2018 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

Peter Langham
CEO and executive director

28 August 2018
Sydney

Deloitte.

Deloitte Touche Tohmatsu
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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 2018, 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 2018 and of their 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.

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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Revenue recognition**<br><br>For the year ended 30 June 2018 the Group has recognised fee income of $69.9 million and interest income of $78.9 million.<br><br>As disclosed in Note 1, fee income is derived from administering client accounts, recovering expenses and other sundry sources. Fee income is primarily determined by the assessing and processing of trade debtors assigned to the Group as collateral for the client receivables.<br><br>Judgement is required in assessing timing of recognition of revenue across the different types of fees in accordance with the relevant accounting standards. | Our audit procedures included, but were not limited to:<br>- Reviewing the design and operating effectiveness of controls relating to the input and review of client data,<br>- Engaging IT specialists to assess the General Information Technology Controls around the core systems which calculate fee income,<br>- Evaluating the robustness of management's review of the monthly revenue balances and investigative processes to identify errors on a timely basis,<br>- Performing substantive analytical procedures to determine the reasonableness of the fee income balances based on current business activity,<br>- Assessing the different fee revenue streams to identify which fees should be amortised over the expected life of the client in accordance with the relevant accounting standards as part of the effective interest rate,<br>- Testing the recalculation of the management fee balance on a sample basis, and<br>- Selecting on a sample basis client contracts and agreeing the client specific rates to the underlying revenue transactions on a sample basis.<br><br>We have also assessed the appropriateness of the disclosures in Note 1 to the financial statements. |

*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.

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*Responsibilities of the 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:

- 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.

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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 17 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of the Scottish Pacific Group Limited, for the year ended 30 June 2018, 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
Partner
Chartered Accountants
Sydney, 28 August 2018

### Additional Shareholder Information

*Additional information required by the Australian Securities Exchange (ASX) and not shown elsewhere in this report is as follows. The information is current at 17 August 2018.*

*Scottish Pacific Group Limited shares are traded on the ASX under the code 'SCO'.*

### Share registry

*Link Market Services*
*Level 12, 680 George Street*
*Sydney NSW 2000*
*Phone: +61 1300 554 474*

### Registered office and Principal Place of Business

*Level 5, 20 Bond Street*
*Sydney NSW 2000*
*Phone: + 61 2 9372 9999*

### Substantial Shareholders
### (as reported in substantial holding notices provided to the ASX)

| Name | Number of Shares | Current Interest |
|---|---|---|
| CBA | 18,243,940 | 13.11% |
| Ellerston Capital | 23,082,316 | 16.58% |
| Yarra Funds Management | 13,266,773 | 9.53% |
| H.E.S.T Australia as Trustee for Health Employees Superannuation Trust Australia | 12,105,902 | 8.70% |
| AustralianSuper Pty Ltd | 8,946,383 | 6.43% |
| JP Morgan Chase & Co | 8,776,181 | 6.31% |
| Eley Griffiths Group Pty Limited | 6,996,420 | 5.19% |

### Distribution of Shareholders

*There are 1,559 holders of 139,191,601 ordinary shares.*

| | Ordinary Shares | |
|---|---|---|
| | Number of Holders | Number of Shares |
| 1- 1,000 | 212 | 99,146 |
| 1,001 - 5,000 | 583 | 1,734,035 |
| 5,001 - 10,000 | 353 | 2,745,521 |
| 10,001 - 100,000 | 363 | 9,499,780 |
| 100,001 - and over | 48 | 125,113,119 |
| **TOTAL** | **1,559** | **139,191,601** |

*There are 48 shareholders holding less than a marketable parcel (1,172 shares).*

**Scottish Pacific Group Limited**
**Shareholder information**
**30 June 2018**

***Distribution of shareholders and shareholdings – options (unlisted)***

*Scottish Pacific Group Limited has 4,095,480 unquoted options on issue issued under an employee share plan. These are held by 16 employees.*

| | *Unlisted Options* | |
|---|---|---|
| | *Number of Holders* | *Number of Options* |
| 1- 1,000 | - | - |
| 1,001 - 5,000 | - | - |
| 5,001 - 10,000 | - | - |
| 10,001 - 100,000 | 2 | 118,763 |
| 100,001 - and over | 14 | 3,976,717 |
| **TOTAL** | **16** | **4,095,480** |

***Top Twenty Shareholders***

| Rank | Name | 17 Aug 2018 | %IC |
|---|---|---|---|
| 1 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 40,103,247 | 28.81 |
| 2 | CITICORP NOMINEES PTY LIMITED | 23,962,484 | 17.22 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 22,842,410 | 16.41 |
| 4 | NATIONAL NOMINEES LIMITED | 12,017,862 | 8.63 |
| 5 | BNP PARIBAS NOMS PTY LTD | 5,120,443 | 3.68 |
| 6 | BNP PARIBAS NOMS (NZ) LTD | 4,017,743 | 2.89 |
| 7 | LANGHAM INVESTMENTS PTY LTD | 2,425,055 | 1.74 |
| 8 | NETWEALTH INVESTMENTS LIMITED | 1,489,503 | 1.07 |
| 9 | ECAPITAL NOMINEES PTY LIMITED | 905,663 | 0.65 |
| 10 | AVANTEOS INVESTMENTS LIMITED | 896,895 | 0.64 |
| 11 | WARBONT NOMINEES PTY LTD | 850,779 | 0.61 |
| 12 | BNP PARIBAS NOMINEES PTY LTD | 834,102 | 0.60 |
| 13 | MR JINYUE ZHANG & MRS TING WU | 724,900 | 0.52 |
| 14 | PETER LANGHAM & FIONA LANGHAM | 673,554 | 0.48 |
| 15 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 611,233 | 0.44 |
| 16 | MICHO CORPORATE SERVICES PTY LTD | 558,841 | 0.40 |
| 17 | MR IAN MURRAY NICOL | 524,898 | 0.38 |
| 18 | MR CHRISTOPHER JOHN HEDGE & MRS JULIE ROWENA HEDGE | 515,000 | 0.37 |
| 19 | SANDHURST TRUSTEES LTD | 492,250 | 0.35 |
| 20 | BERAEM PTY LIMITED | 365,000 | 0.26 |
| | **Total** | **120,341,751** | **86.46** |
| | **Balance of register** | **18,849,850** | **13.54** |
| | **Grand total** | **139,191,601** | **100.00** |

***On-Market Buy Back***

*There is no current on-market buy back.*

### *Voting Rights*

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

*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.*

*Unlisted options have no voting rights.*

*There are no other classes of equity securities.*

### *Securities subject to Voluntary Escrow*

*There were no ordinary shares held in a voluntary escrow arrangement as at 31 July 2018.*

### *Stock Exchange Listing*

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