

ASX ANNOUNCEMENT

26 October 2018

Scottish Pacific Scheme Booklet registered with ASIC

Scottish Pacific Group Limited (ASX: SCO) (**Scottish Pacific**) is pleased to announce that the Australian Securities and Investments Commission (**ASIC**) has today (Friday, 26 October 2018), registered the Scheme Booklet in relation to the proposed acquisition of all the shares on issue in Scottish Pacific by SME Capital Investments III Pty Ltd (ACN 628 950 514) (**Bidder**) (an entity wholly owned by funds managed or advised by Affinity Equity Partners Limited) by way of a scheme of arrangement (**Scheme**). This follows issuance of orders by the Supreme Court of Victoria (**Court**) earlier today approving the despatch of the Scheme Booklet to Scottish Pacific shareholders and the convening of meetings of Scottish Pacific shareholders to consider and vote on the Scheme (**Scheme Meetings**).

The Scheme is subject to the approval of Scottish Pacific's shareholders at the Scheme Meetings and the Court as well as certain other conditions (details of which are set out in the Scheme Booklet). If the Scheme is approved and implemented, Scottish Pacific shareholders who are not members of Scottish Pacific's management team (**Management Shareholders**) will receive \$4.40 per Scottish Pacific share that they hold in cash (**Scheme Consideration**). Management Shareholders may make an election under the Scheme to receive either the Scheme Consideration or:

- in respect of 50% of the Scottish Pacific shares they hold (rounded down to the nearest whole Scottish Pacific share), 1 share in SME Capital Holdings Pty Ltd (ACN 628 947 544), which is the indirect owner of all of the shares in the Bidder, per Scottish Pacific share; plus
- in respect of the balance of the Scottish Pacific shares they hold, a cash payment of \$4.40 per Scottish Pacific share.

The Independent Expert appointed by the board of directors of Scottish Pacific (**Board**) in relation to the Scheme, KPMG Corporate Finance, has concluded that the Scheme is fair and reasonable and therefore is in the best interests of Scottish Pacific shareholders (including Management Shareholders) in the absence of a superior proposal.

The Board continues to unanimously recommend that Scottish Pacific shareholders vote in favour of the Scheme, subject to no superior proposal emerging and the Independent Expert continuing to consider the Scheme to be in the best interests of Scottish Pacific shareholders (including Management Shareholders). Subject to those same qualifications, each director of Scottish Pacific intends to vote all Scottish Pacific shares held or controlled by them in favour of the Scheme.

Despatch of Scheme Booklet

A copy of the Scheme Booklet, which includes the notices of Scheme Meetings and the Independent Expert's Report, is attached to this announcement and will be sent to Scottish Pacific shareholders on or about Thursday, 1 November 2018.

Scheme Meetings

The Scheme Meetings will be held on Friday, 30 November 2018 at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000, commencing at 10:30am (Sydney time).

All Scottish Pacific shareholders are encouraged to vote either by attending the relevant Scheme Meeting in person or by appointing a proxy, attorney or body corporate representative to attend the relevant Scheme Meeting and vote on your behalf. Details on how to vote at the relevant Scheme Meeting are included in the Scheme Booklet.

Further information

For further information, please contact:

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CEO

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ENDS



scottish pacific
BUSINESS FINANCE

SCHEME BOOKLET



LEGAL AND
TAX ADVISER



FINANCIAL
ADVISER

For a scheme of arrangement in relation to the proposed acquisition of all Scottish Pacific Shares held by Scheme Shareholders by SME Capital Investments III Pty Ltd (ACN 628 950 514) (the **Bidder**).

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU APPROVE THE SCHEME BY VOTING IN FAVOUR OF THE SCHEME RESOLUTION, IN THE ABSENCE OF A SUPERIOR PROPOSAL.

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE SCHEME IS IN THE BEST INTERESTS OF SCOTTISH PACIFIC SHAREHOLDERS IN THE ABSENCE OF A SUPERIOR PROPOSAL

This document is important and requires your immediate attention. It should be read in its entirety before deciding whether or not to vote in favour of the resolution to approve the Scheme.

If you do not understand its contents or are in doubt as to the course you should follow, you should consult your legal, financial, taxation or other professional adviser without delay.

If you have sold all of your Scottish Pacific Shares, please ignore this document.

If you have any questions in relation to this Scheme Booklet or the Scheme, you should call the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) on Business Days between 8:30am and 5:30pm (Sydney time).

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Important Notices

DEFINED TERMS

Defined terms and abbreviations have the meanings given in the Glossary set out in Section 9.

NATURE OF THIS DOCUMENT

This Scheme Booklet provides Scottish Pacific Shareholders with information about the proposed acquisition of Scottish Pacific by the Bidder. If you have sold all your Scottish Pacific Shares, please ignore this Scheme Booklet.

This document is important. Scottish Pacific Shareholders should carefully read this document in its entirety before making a decision as to how to vote on the Scheme to be considered at the applicable Scheme Meeting.

This Scheme Booklet is not a disclosure document required by Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1) of the Corporations Act. Instead, Scottish Pacific Shareholders asked to vote on an arrangement at such a meeting must be provided with an explanatory statement as referred to below.

NO INVESTMENT ADVICE

The information in this Scheme Booklet does not constitute financial product advice. This Scheme Booklet has been prepared without reference to the investment objectives, financial situation or particular needs of any Scottish Pacific Shareholder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision. Independent legal, financial and taxation advice should be sought

before making any investment decision in relation to your Scottish Pacific Shares.

NOT AN OFFER

This Scheme Booklet does not constitute or contain an offer to Scottish Pacific Shareholders, or a solicitation of an offer from Scottish Pacific Shareholders, in any jurisdiction.

FOREIGN JURISDICTIONS

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

REGULATORY INFORMATION

This Scheme Booklet is the explanatory statement for the proposed scheme of arrangement between Scottish Pacific and the holders of Scottish Pacific Shares as at the Scheme Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet (including the Independent Expert's Report) was provided to ASIC for examination in

accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC in accordance with section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Scottish Pacific Shareholders.

In compliance with section 411(17)(b) of the Corporations Act, ASIC has been requested to provide a statement that it has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

Neither ASIC, nor any of its officers, takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will also be lodged with ASX. Neither ASX, nor any of its officers, takes any responsibility for the contents of this Scheme Booklet.

RESPONSIBILITY FOR CONTENTS

- (a) Except as provided in paragraphs (b) to (d) below, the information in this Scheme Booklet has been provided by Scottish Pacific and is the responsibility of Scottish Pacific (**Scottish Pacific Information**). The Bidder Group does not assume any responsibility for the accuracy or completeness of any information other than as set out in paragraphs (b) to (d) below.
- (b) The Bidder has provided and is responsible for the Bidder Group Information. Scottish Pacific and its directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Bidder Group Information.

- (c) The Tax Adviser, PwC, has provided and is responsible for the information contained in Section 7. Neither Scottish Pacific nor the Bidder Group assumes any responsibility for the accuracy or completeness of the information contained in Section 7. PwC does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Section 7.
- (d) The Independent Expert, KPMG Corporate Finance, has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is included in this Scheme Booklet as Annexure A. Neither Scottish Pacific nor the Bidder Group assumes any responsibility for the accuracy or completeness of the information contained in Annexure A to this Scheme Booklet except in relation to information given by it to the Independent Expert. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Annexure A.
- (e) Link Market Services has had no involvement in the preparation of any part of this Scheme Booklet other than being named as Scottish Pacific's Share Registry. Link Market Services has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act, the Court has ordered that a meeting be convened does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how Scottish Pacific Shareholders should vote (on this matter Scottish Pacific Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for the content of, the explanatory statement.

NOTICES OF SCHEME MEETINGS

The Notices of Scheme Meetings are included in this Scheme Booklet as Annexure D.

NOTICE REGARDING SECOND COURT HEARING AND IF A SCOTTISH PACIFIC SHAREHOLDER WISHES TO OPPOSE THE SCHEME

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the votes at the Scheme Meetings.

Any Scottish Pacific Shareholder has the right to appear at the Second Court Hearing, expected to be held at 9:30am on Friday, 7 December 2018 at the Supreme Court of Victoria, 450 Little Bourke Street, Melbourne VIC 3000.

Any Scottish Pacific Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court, and serving on Scottish Pacific, a notice of appearance, in the prescribed form, together with any affidavit that the Scottish Pacific Shareholder

proposes to rely on at least one day before the Second Court Hearing.

FORWARD-LOOKING STATEMENTS

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

Forward-looking statements generally may be identified by the use of forward-looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe Scottish Pacific's, the Bidder's or the Bidder Group's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Scottish Pacific's operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of Scottish Pacific are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Scottish Pacific and/or the Bidder Group. Scottish Pacific Shareholders should note that the historical financial performance of Scottish Pacific is no assurance of

Important Notices

the future financial performance of Scottish Pacific (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Scottish Pacific operates, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Scottish Pacific following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Scottish Pacific believes that the views reflected in any forward-looking statements included in the Scottish Pacific Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although the Bidder and each member of the Bidder Group believes that the views reflected in any forward-looking statements included in the Bidder Group Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Scottish Pacific or any member of the Bidder Group or any of their respective officers, employees, agents or advisers or any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any

forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. Scottish Pacific Shareholders are cautioned not to place undue reliance on any forward-looking statement.

Subject to any continuing obligations under relevant laws or the ASX Listing Rules, none of Scottish Pacific or any member of the Bidder Group give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

PRIVACY

Personal information will be collected and held by Scottish Pacific or the Bidder Group in the process of implementing the Scheme. This information may include the name, contact details and shareholdings of Scottish Pacific Shareholders and the names of individuals appointed to act as proxy, attorney or corporate representative by Scottish Pacific Shareholders at the Scheme Meetings. The purpose of collecting this personal information is to assist Scottish Pacific and the Bidder to conduct the Scheme Meetings and implement the Scheme.

Any personal information collected may be disclosed to the Share Registry, advisers, print and mail service providers, authorised securities brokers, Related Bodies Corporate of Scottish Pacific and the Bidder, and advisers and services providers to Scottish Pacific and the Bidder Group, to the extent necessary to affect the Scheme.

Scottish Pacific Shareholders are entitled to inspect, obtain copies of and correct personal information collected. Scottish Pacific Shareholders should contact the Share Registry in the first instance if they wish to access or correct their personal information. Scottish Pacific Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should inform that person of these matters.

EFFECT OF ROUNDING

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

TIMES AND DATES

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Melbourne, Australia. All dates following the date of the Scheme Meetings are indicative only and are subject to the Court approval process and the satisfaction or, where applicable, waiver of the Conditions Precedent to the implementation of the Scheme (see Section 3.7(a)).

CURRENCY

The financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated. A reference to \$ and cents is to Australian currency, unless otherwise stated.

DATE OF SCHEME BOOKLET

This Scheme Booklet is dated Friday, 26 October 2018.

Important Dates

| EVENT | DATE |
|--|---|
| Date of this Scheme Booklet | Friday, 26 October 2018 |
| First Court Date | 10:00am on Friday, 26 October 2018 |
| Scheme Booklet registered with ASIC | Friday, 26 October 2018 |
| Despatch Scheme Booklet to Scottish Pacific Shareholders | Thursday, 1 November 2018 |
| Management Shareholders Election Date – date by which Election Form must be received | 5:00pm on Monday, 26 November 2018 |
| Last date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meetings | 10:30am (Sydney time) on Wednesday, 28 November 2018 |
| Time and date for determining eligibility to vote at Scheme Meetings | 7:00pm (Sydney time) on Wednesday, 28 November 2018 |
| Management Scheme Meeting | 10:30am (Sydney time) on Friday, 30 November 2018 |
| Scottish Pacific Scheme Meeting (the Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting) | immediately following the conclusion of the Management Scheme Meeting |

IF THE SCHEME IS APPROVED BY SCOTTISH PACIFIC SHAREHOLDERS AT THE SCOTTISH PACIFIC SCHEME MEETING AND THE MANAGEMENT SCHEME MEETING

| EVENT | DATE |
|--|---------------------------------------|
| Second Court Date for approval of the Scheme | 9:30am on Friday, 7 December 2018 |
| Effective Date <ul style="list-style-type: none"> the Court order is lodged with ASIC and announcement to ASX last day of trading in Scottish Pacific Shares – Scottish Pacific Shares suspended from trading on ASX from close of trading | Friday, 7 December 2018 |
| Scheme Record Date for determining entitlements to Scheme Consideration | 5:00pm on Wednesday, 12 December 2018 |
| Implementation Date – date of payment of Scheme Consideration | Tuesday, 18 December 2018 |

- All dates following the date of the Scheme Meetings are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. The actual timetable will depend on many factors outside the control of Scottish Pacific, including the Court approval process and satisfaction or, where applicable, waiver of other Conditions Precedent to the implementation of the Scheme (see Section 3.7(a)).
- All dates and time in this Scheme Booklet, unless otherwise indicated, refer to the date and time in Melbourne, Australia. Scottish Pacific reserves the right to vary the times and dates set out above at its discretion. Any changes to the above timetable will be announced through ASX and will otherwise appear on Scottish Pacific's website: <https://investors.scottishpacific.com/investors/>.

Message from the Chairman of Scottish Pacific

26 October 2018

Dear Scottish Pacific Shareholder,

On behalf of the Scottish Pacific Board, I am pleased to provide you with this Scheme Booklet which contains information for your consideration in relation to a proposal by SME Capital Investments III Pty Ltd (referred to in this Scheme Booklet as the **Bidder**), an entity owned by certain funds managed or advised by Affinity Equity Partners Limited (together with its related advisory entities, referred to in this Scheme Booklet as **Affinity**), to acquire all of the Scottish Pacific Shares by way of scheme of arrangement (referred to in this Scheme Booklet as the **Scheme**).

OVERVIEW

As announced on Monday, 24 September 2018, Scottish Pacific entered into the Original Scheme Implementation Agreement with the Bidder in relation to the Scheme. On 24 October 2018, the parties entered into the Scheme Implementation Agreement which amended and replaced the Original Scheme Implementation Agreement. Under the Scheme, it is proposed that the Bidder will acquire 100% of the shares in Scottish Pacific. The Scheme is subject to regulatory approvals, the approval of Scottish Pacific Shareholders and certain other conditions precedent (as described in Section 3.7(a)).

If the Scheme is approved and implemented, Scottish Pacific Shareholders (other than those Management Shareholders who make a valid election for the Scrip Option described below) will receive a cash payment of \$4.40 per Scottish Pacific Share (referred to in this Scheme Booklet as the **Scheme Consideration**) in respect of all of the Scottish Pacific Shares that they hold as at the Scheme Record Date.

The Scheme Consideration of \$4.40 per Scottish Pacific Share represents:

- 17.6% premium to Scottish Pacific's closing share price of \$3.74 on 19 September 2018, being the last closing price prior to entering into trading halt and announcing the Scheme;
- 23.8% premium to the 1-week VWAP of \$3.55 (up to and including 19 September 2018);
- 27.8% premium to the 1-month VWAP of \$3.44 (up to and including 19 September 2018);
- 34.4% premium to the 3-month VWAP of \$3.27 (up to and including 19 September 2018);
- 37.5% premium to the 12-month VWAP of \$3.20; and
- 18.7x price to FY18 NPATA on a fully diluted basis.¹

Management Shareholders only may elect to receive the Scrip Option with respect to all of their Scottish Pacific Shares, given their ongoing role with Scottish Pacific, under which Management Shareholders will receive the following:

- in respect of 50% of the Scottish Pacific Shares they hold as at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 share in SME Capital Holdings Pty Ltd (referred to in this Scheme Booklet as **Holdco**), which is the indirect owner of all of the shares in the Bidder, per Scottish Pacific Share; plus
- in respect of the balance of the Scottish Pacific Shares they hold as at the Scheme Record Date, a cash payment of \$4.40 per Scottish Pacific Share.

DIRECTORS' RECOMMENDATION

Your Directors have carefully considered the proposal from Affinity and unanimously recommend that you vote in favour of the Scheme. This recommendation is subject to no Superior Proposal emerging, and the Independent Expert continuing to consider the Scheme to be in the best interests of Scottish Pacific Shareholders (including Management Shareholders). Subject to those same qualifications, each of your Directors that holds or controls Scottish Pacific Shares intends to vote in favour of the Scheme.

¹ Calculated on a fully diluted basis which includes 139,191,601 ordinary shares outstanding and assumed conversion of 4,243,619 unlisted options.

While the Scottish Pacific Board is confident of Scottish Pacific's ability to continue to deliver returns to Scottish Pacific Shareholders into the future, your Directors consider the proposal from Affinity to be an attractive outcome for Scottish Pacific Shareholders given the material premium and the opportunity to realise certain immediate value given the entitlement to receive up to 100% of the Scheme Consideration in cash.

Reasons to vote in favour of or against the Scheme are set out in detail in Section 1.

INDEPENDENT EXPERT

Your Directors appointed KPMG Corporate Finance to prepare an Independent Expert's Report for the Scheme. As the consideration payable under the Scheme may be different for Management Shareholders who make a valid election for the Scrip Option and other Scottish Pacific Shareholders, the Independent Expert has separately considered the merits of the Scheme for Scottish Pacific Shareholders.

The Independent Expert has concluded that the Scheme:

- is fair and reasonable and, therefore, is in the best interests of Scottish Pacific Shareholders (other than Management Shareholders), in the absence of a Superior Proposal; and
- is fair and reasonable and, therefore, is in the best interests of Management Shareholders, in the absence of a Superior Proposal.

OPINION TO SCOTTISH PACIFIC SHAREHOLDERS (OTHER THAN MANAGEMENT SHAREHOLDERS)

The Independent Expert has assessed the full underlying value of Scottish Pacific at between \$4.24 and \$4.81 per Scottish Pacific Share. The Scheme Consideration of \$4.40 per Scottish Pacific Share, payable to all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option, is within this valuation range.

OPINION TO MANAGEMENT SHAREHOLDERS

The Independent Expert has assessed the value of Scottish Pacific under the Scrip Option to be, at a minimum, in the range of \$3.64 and \$4.37 per Scottish Pacific Share, excluding potential synergies specific to the Bidder. The assessed value of the Scheme Consideration provided to Management Shareholders who make a valid election for the Scrip Option overlaps with the Independent Expert's valuation range for a Scottish Pacific Share (being at between \$4.24 and \$4.81 per Scottish Pacific Share).

A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet. I strongly encourage you to read this report.

HOW TO VOTE

The Scheme can only be implemented if it is approved by the Requisite Majorities of Scottish Pacific Shareholders at the relevant Scheme Meeting, and if it is subsequently approved by the Court.

If you are a Scottish Pacific Shareholder, you may vote on the applicable Scheme Resolution by attending the relevant Scheme Meeting in person, or by appointing a proxy, attorney or body corporate representative to attend the relevant Scheme Meeting to vote on your behalf. The Management Scheme Meeting will be held at 10:30am (Sydney time) on Friday, 30 November 2018 at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000, and the Scottish Pacific Scheme Meeting will be held at the same location immediately following the conclusion of the Management Scheme Meeting.

If you do not wish to or are unable to attend the relevant Scheme Meeting in person, you may vote on the applicable Scheme Resolution by completing the personalised proxy form accompanying the Scheme Booklet and returning it to Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 so that it is received no later than 10:30am (Sydney time) on Wednesday, 28 November 2018.

The Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting.

Message from the Chairman of Scottish Pacific

FURTHER INFORMATION

This Scheme Booklet sets out further information relating to the Scheme, including the reasons for your Directors' recommendation and the Independent Expert's Report. I encourage you to read this Scheme Booklet carefully and in its entirety as it contains important information that you should consider before you vote on the relevant Scheme Resolution. You should also consult your independent legal, financial, taxation or other professional adviser before making an investment decision in relation to your Scottish Pacific Shares.

If you have any questions regarding the Scheme or this Scheme Booklet, you should contact the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) on Business Days between 8:30am and 5:30pm (Sydney time).

On behalf of the Scottish Pacific Directors, I thank you for your ongoing support of Scottish Pacific.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Elliott', with a stylized flourish at the end.

Patrick Elliott

Chairman

Scottish Pacific Group Limited

Purpose of this Scheme Booklet

On Monday, 24 September 2018, Scottish Pacific and the Bidder entered into the Original Scheme Implementation Agreement under which the Bidder has agreed to acquire all issued Scottish Pacific Shares by way of a Scheme. On 24 October 2018, the parties entered into the Scheme Implementation Agreement which amended and replaced the Original Scheme Implementation Agreement. A summary of the terms of the Scheme Implementation Agreement is set out in Section 3.7.

A 'scheme of arrangement' is a statutory procedure that can be used to enable one company to acquire another under the Corporations Act. It requires a vote in favour of the Scheme by the Requisite Majorities of Scottish Pacific Shareholders at the Scheme Meetings, followed by Court approval.

The purpose of this Scheme Booklet is to explain the terms of the proposed Scheme and provide you with information on the Scheme to assist you in your decision whether or not to vote in favour of the Scheme.

Voting will take place at the Management Scheme Meeting scheduled to be held at 10:30am (Sydney time) on Friday, 30 November 2018 and at the Scottish Pacific Scheme Meeting scheduled to be held immediately following the conclusion of the Management Scheme Meeting. The Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting.

You should read this Scheme Booklet in full before deciding how to vote at the applicable Scheme Meeting. The Scheme has a number of advantages, disadvantages and risks which may affect Scottish Pacific Shareholders in different ways depending on their individual circumstances. Scottish Pacific Shareholders should seek professional advice on their particular circumstances, as appropriate.

REASONS TO VOTE IN FAVOUR OF THE SCHEME

- The Directors unanimously recommend that Scottish Pacific Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Scottish Pacific Shareholders. Subject to the same qualifications, each Scottish Pacific Director intends to vote, or cause to be voted, all Scottish Pacific Shares held or Controlled by them in favour of the Scheme.
- The Independent Expert has concluded that:
 - the Scheme is fair and reasonable and in the best interests of Scottish Pacific Shareholders (other than Management Shareholders), in the absence of a Superior Proposal. The Scheme Consideration of \$4.40 per Scottish Pacific Share falls within the valuation range of \$4.24 to \$4.81 by the Independent Expert; and
 - the Scheme is fair and reasonable and in the best interests of Management Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the value of Scottish Pacific under the Scrip Option to be, at a minimum, in the range of \$3.64 and \$4.37 per Scottish Pacific Share, excluding potential synergies specific to the Bidder. The assessed value of the Scheme Consideration provided to Management Shareholders who make a valid election for the Scrip Option overlaps with the Independent Expert's valuation range for a Scottish Pacific Share (being at between \$4.24 and \$4.81 per Scottish Pacific Share).
- The Scheme Consideration of \$4.40 per Scottish Pacific Share represents a significant premium to historical trading prices of Scottish Pacific Shares.
- The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with the opportunity to access full liquidity in respect of your Scottish Pacific Shares.
- The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with certainty of value for your Scottish Pacific Shares.
- No Superior Proposal has emerged as at the date of this Scheme Booklet.
- If the Scheme does not proceed, and no Superior Proposal emerges, Scottish Pacific Shareholders will continue to be subject to the specific risks associated with Scottish Pacific's business and general market risks. These risks include, but are not limited to, the risks set out in Section 6.
- No brokerage or stamp duty will be payable on the transfer of your Scottish Pacific Shares.

Purpose of this Scheme Booklet

REASONS NOT TO VOTE IN FAVOUR OF THE SCHEME

- You may disagree with the Independent Expert and your Directors and believe that the Scheme is not in the best interests of Scottish Pacific Shareholders.
- The tax consequences of transferring your Scottish Pacific Shares pursuant to the Scheme may not be optimal for your financial position.
- You may wish to retain your direct investment in Scottish Pacific as an ASX listed company.
- You may consider that there is potential for a Superior Proposal to be made in the foreseeable future.
- The Scheme may be subject to conditions that you consider unacceptable.

Next steps

(A) CAREFULLY READ THIS SCHEME BOOKLET

This is an important document and you should read it carefully and in its entirety before making a decision on how to vote at the applicable Scheme Meeting.

(B) VOTE ON THE SCHEME

As a Scottish Pacific Shareholder, you are entitled to vote on whether the Scheme should proceed at the applicable Scheme Meeting. Please refer to the following pages of this Scheme Booklet for details on how to vote at the applicable Scheme Meeting, including by proxy.

(C) SEEK FURTHER INFORMATION

If you have any questions in relation to the Scheme or the number of Scottish Pacific Shares you hold or how to vote, please call the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) during Business Days between 8:30am and 5:30pm (Sydney time). If you have any doubts as to the actions you should take or you have further questions, please contact your legal, financial, taxation or other professional adviser.

(D) WHY YOU SHOULD VOTE

As a Scottish Pacific Shareholder, you have a say in whether the Bidder will acquire all of the Scottish Pacific Shares. This is your opportunity to play a role in deciding the future of Scottish Pacific.

How to vote

YOUR VOTE IS IMPORTANT

For the Scheme to proceed, it is necessary that the relevant Scheme Resolution is approved by the Requisite Majorities at the Scheme Meetings.

For this reason the Scottish Pacific Directors unanimously recommend that you vote in favour of the Scheme Resolution, in the absence of a Superior Proposal and subject to the Independent Expert continuing to consider the Scheme to be in the best interests of Scottish Pacific Shareholders (including Management Shareholders).

If you are unable to attend the applicable Scheme Meeting, the Scottish Pacific Directors urge you to complete and return, in the enclosed reply paid envelope, the personalised proxy form that accompanies this Scheme Booklet or lodge your proxy form online at Link Market Service's website (www.linkmarketservices.com.au) in accordance with the instructions given there.

WHO IS ENTITLED TO VOTE?

Subject to any voting restrictions, Scottish Pacific Shareholders will be eligible to vote at the applicable Scheme Meeting if they are registered as a Scottish Pacific Shareholder on the Register as at 7:00pm (Sydney time) on Wednesday, 28 November 2018.

TIME AND PLACE OF THE MANAGEMENT SCHEME MEETING

The details of the Management Scheme Meeting are as follows:

Location: Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000

Date: Friday, 30 November 2018

Time: 10:30 am (Sydney time)

A copy of the Notice of Management Scheme Meeting is set out in Annexure D to this Scheme Booklet.

TIME AND PLACE OF THE SCOTTISH PACIFIC SCHEME MEETING

The details of the Scottish Pacific Scheme Meeting are as follows:

Location: Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000

Date: Friday, 30 November 2018

Time: immediately following the conclusion of the Management Scheme Meeting

The Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting.

A copy of the Notice of Scottish Pacific Scheme Meeting is set out in Annexure D to this Scheme Booklet.

VOTING IN PERSON

If you wish to vote in person, you must attend the applicable Scheme Meeting.

APPOINTMENT OF PROXY

If you cannot attend the applicable Scheme Meeting, you may appoint an individual or a body corporate as a proxy to attend and vote at the applicable Scheme Meeting. If a body corporate is appointed as a proxy, that body corporate must ensure that it appoints a corporate representative in accordance with section 250D of the Corporations Act to exercise its powers as proxy at the applicable Scheme Meeting.

If you wish to appoint a proxy to attend and vote at the applicable Scheme Meeting on your behalf, please complete and sign the personalised proxy form accompanying this Scheme Booklet in accordance with the instructions set out below.

TO BE VALID, PROXY FORMS FOR THE SCHEME MEETINGS MUST BE RECEIVED BY THE SHARE REGISTRY BY NO LATER THAN 10:30AM (SYDNEY TIME) ON WEDNESDAY, 28 NOVEMBER 2018, BEING 48 HOURS BEFORE THE SCHEME MEETINGS.

Proxy forms, duly completed in accordance with the instructions set out on the proxy form, may be returned to the Share Registry by one of the following methods:

By post: Scottish Pacific Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

By facsimile: +61 2 9287 0309

By delivery in person*: Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

** During business hours (Monday to Friday, 9.00am-5.00pm (Sydney time))*

Online: www.linkmarketservices.com.au

Login to the Link Market Services website using the holding details shown on the proxy form. Select "Voting" and follow the prompts to lodge your proxy. To use the online lodgement facility, Scottish Pacific Shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).

By Mobile Device: The Link Market Services voting website is designed specifically for voting online. Scottish Pacific Shareholders can lodge their proxy by scanning the QR code provided on their proxy form or enter the voting link www.linkmarketservices.com.au into their mobile device. Log in using the Holder Identifier and postcode for shareholding. To scan the code, Scottish Pacific Shareholders will need a QR code reader application which can be downloaded for free on mobile devices.

Please ensure that any proxy form which you intend to post or deliver is received by 10:30am (Sydney time) on Wednesday, 28 November 2018. Scottish Pacific will accept proxies received by fax or online (including through mobile devices) before 10:30am (Sydney time) on Wednesday, 28 November 2018.

POWER OF ATTORNEY

A proxy form and the original power of attorney (if any) under which the proxy form is signed (or a certified copy of that power of attorney or other authority) must be received by Scottish Pacific no later than 10:30am (Sydney time) on Wednesday, 28 November 2018.

CORPORATE REPRESENTATIVES

A body corporate which is a shareholder, or which has been appointed as a proxy, is entitled to appoint any person to act as its representative at the applicable Scheme Meeting. As noted above, the appointment of the representative must comply with the requirements under section 250D of the Corporations Act. The representative should bring to the applicable Scheme Meeting a properly executed letter or other document confirming its authority to act as the company's representative. A "Certificate of Appointment of Corporate Representative" form may be obtained from the Share Registry or online at www.linkmarketservices.com.au.

1. Key considerations relevant to your vote

1.1 SCOTTISH PACIFIC DIRECTORS' RECOMMENDATION

The Scottish Pacific Directors unanimously recommend that Scottish Pacific Shareholders vote in favour of the relevant Scheme Resolution at the Scheme Meetings, in the absence of a Superior Proposal and subject to the Independent Expert continuing to consider the Scheme to be in the best interests of Scottish Pacific Shareholders (including Management Shareholders). Subject to the same qualifications, each Scottish Pacific Director intends to vote, or cause to be voted, all the Scottish Pacific Shares held or Controlled by them in favour of the Scheme at the applicable Scheme Meeting. The Relevant Interests of Scottish Pacific Directors in Scottish Pacific Shares as at the date of this Scheme Booklet are set out in Section 8.1.

1.2 REASONS TO VOTE IN FAVOUR OF THE SCHEME

The Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal

Your Directors believe that the Scheme is in the best interests of Scottish Pacific Shareholders and unanimously recommend that, in the absence of a Superior Proposal, Scottish Pacific Shareholders vote in favour of the Scheme at the applicable Scheme Meeting. In reaching their recommendation, your Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this Scheme Booklet and Scottish Pacific's current strategic plans.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Scottish Pacific Shareholders (including Management Shareholders), in the absence of a Superior Proposal

Your Directors appointed KPMG Corporate Finance as Independent Expert to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is in the best interests of Scottish Pacific Shareholders (including Management Shareholders).

As the consideration payable under the Scheme may be different for Management Shareholders who make a valid election for the Scrip Option and other Scottish Pacific Shareholders, the Independent Expert has separately considered the merits of the Scheme for Scottish Pacific Shareholders.

The Independent Expert evaluated the Scheme and valued Scottish Pacific at \$4.24 to \$4.81 per Scottish Pacific Share.

The Scheme Consideration of \$4.40 per Scottish Pacific Share is within the valuation range of the Independent Expert. Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable to and is in the best interests of Scottish Pacific Shareholders (other than Management Shareholders), in the absence of a Superior Proposal.

The Independent Expert also assessed the value of Scottish Pacific under the Scrip Option and concluded it to be, at a minimum, in the range of \$3.64 and \$4.37 per Scottish Pacific Share, excluding potential synergies specific to the Bidder. The assessed value of Scheme Consideration provided to Management Shareholders who make a valid election for the Scrip Option overlaps with the Independent Expert's valuation range for a Scottish Pacific Share (being at between \$4.24 and \$4.81 per Scottish Pacific Share). Accordingly, the Independent Expert has concluded that "the Scheme is fair and reasonable to" and "is in the best interests of Management Shareholders, in the absence of a Superior Proposal".

A copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet.

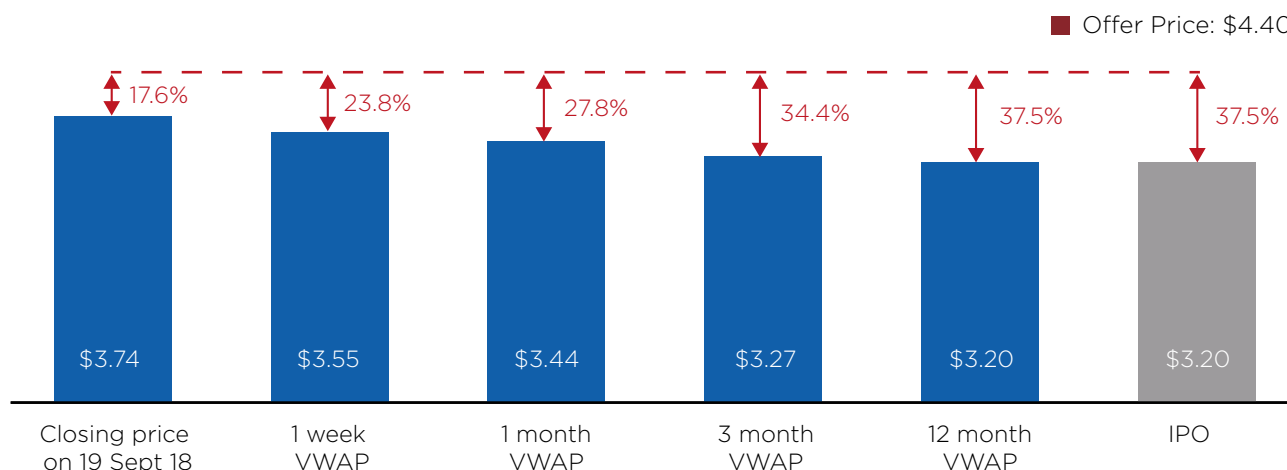
The Scheme Consideration of \$4.40 per Scottish Pacific Share represents a significant premium to historical trading prices of Scottish Pacific Shares

The Scheme Consideration of \$4.40 per Scottish Pacific Share represents a significant premium over historical trading prices of Scottish Pacific Shares:

- 17.6% premium to Scottish Pacific's closing share price of \$3.74 on 19 September 2018, being the last closing price prior to entering into trading halt and announcing the Scheme;
- 23.8% premium to the 1-week VWAP of \$3.55 (up to and including 19 September 2018);
- 27.8% premium to the 1-month VWAP of \$3.44 (up to and including 19 September 2018);
- 34.4% premium to the 3-month VWAP of \$3.27 (up to and including 19 September 2018); and
- 37.5% premium to the 12-month VWAP of \$3.20.

Since 1 September 2017 up to 19 September 2018, being the last trading day prior to Scottish Pacific entering into trading halt and announcing the Scheme, Scottish Pacific Shares have not traded above \$3.74 per Scottish Pacific Share. The Scheme Consideration of \$4.40 per Scottish Pacific Share is also significantly above Scottish Pacific's IPO price of \$3.20.

Figure 1: offer price premiums to undisturbed share price²



In addition, the offer price represents a price to FY18A earnings multiple of 18.7x³ and price to FY19E earnings multiple of 17.0x based on broker consensus forecast.⁴

The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with the opportunity to access full liquidity in respect of your Scottish Pacific Shares

Since listing on ASX in July 2016 up to Scottish Pacific announcing its entry into the Original Scheme Implementation Agreement on 24 September 2018, total daily trading volume for Scottish Pacific Shares has only exceeded 2% of total Scottish Pacific Shares on issue on 11 occasions. Over this period, the median number of shares traded per day⁵ is 165,205 (approximately 0.12% of total shares outstanding of 139.2 million).

The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with access to full liquidity in circumstances where you may presently face limited opportunities to achieve full liquidity in respect of your Scottish Pacific Shares, or may only do so at a discount to the applicable prevailing share price.

The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with certainty of value for your Scottish Pacific Shares

The Scheme Consideration of \$4.40 per Scottish Pacific Share provides you with certainty of value for your Scottish Pacific Shares (subject to the Scheme becoming Effective) and the opportunity for you to realise certain value in the near term which may not be achieved if the Scheme does not proceed.

No Superior Proposal has emerged as at the date of this Scheme Booklet

On the date of announcement of the Scheme, being Monday, 24 September 2018, the Scottish Pacific Board stated it would facilitate any proposal which it believes is in the best interests of Scottish Pacific Shareholders. As at the date of this Scheme Booklet, no other proposal has emerged. However, there remains the possibility that a third party may make a Superior Proposal prior to the Scheme Meetings.

² Up to and including 19 September 2018, being the trading day prior to announcement of the transaction. VWAPs based on cumulative trading volume.

³ Based on FY18A underlying earnings (NPATA) of \$33.8 million and fully diluted shares outstanding of ~143.4 million.

⁴ Based on Factset broker consensus FY19E NPATA of ~\$37.2 million and fully diluted shares outstanding of ~143.4 million.

⁵ Sourced from IRESS. Calculated on a cumulative volume basis.

Key considerations relevant to your vote

If the Scheme does not proceed, and no Superior Proposal emerges, Scottish Pacific Shareholders will continue to be subject to the specific risks associated with Scottish Pacific's business and general market risks

There are a range of specific risks associated with Scottish Pacific's business and general market risks that Scottish Pacific Shareholders will continue to be subject to if the Scheme does not proceed. These risks include, but are not limited to, the risks set out in Section 6.

No brokerage or stamp duty will be payable on the transfer of your Scottish Pacific Shares

You will not incur any brokerage or stamp duty on the transfer of your Scottish Pacific Shares to the Bidder under the Scheme.

1.3 REASONS NOT TO VOTE IN FAVOUR OF THE SCHEME

You may disagree with the Independent Expert and your Directors and believe that the Scheme is not in the best interests of Scottish Pacific Shareholders

You may hold a different view to the Scottish Pacific Directors and the Independent Expert that the Scheme is in the best interests of Scottish Pacific Shareholders.

The tax consequences of transferring your Scottish Pacific Shares pursuant to the Scheme may not be optimal for your financial position

Implementation of the Scheme may have tax consequences for you. A general guide to the taxation implications of the Scheme is set out in Section 7 of this Scheme Booklet. This guide is expressed in general terms and you should seek professional advice regarding the tax consequences applicable to your circumstances.

You may wish to retain your direct investment in Scottish Pacific as an ASX listed company

You may wish to retain your direct investment in Scottish Pacific as an ASX listed company to have an investment in a publicly listed company with the specific characteristics of Scottish Pacific, including in respect of capital structure and potential dividend stream. If the Scheme is implemented and you receive the Scheme Consideration of \$4.40 for each Scottish Pacific Share that you hold as at the Scheme Record Date, you will cease to hold an interest in Scottish Pacific. This will mean that you will not participate in the future performance of Scottish Pacific, including any benefits that may result from being a Scottish Pacific Shareholder. Accordingly, you will not retain any exposure to Scottish Pacific's assets or have the potential to share in the value that could be generated by Scottish Pacific or its business in the future.

You may consider that there is potential for a Superior Proposal to be made in the foreseeable future

It is possible that a more attractive proposal for Scottish Pacific Shareholders could materialise in the future, such as a takeover bid or scheme of arrangement with a higher offer price than the Scheme Consideration of \$4.40 per Scottish Pacific Share. You may believe that this is a possibility that could emerge in the foreseeable future. However, the Directors consider that the possibility of a Superior Proposal emerging is low based on the following:

- since the initial announcement of the Scheme on Monday, 24 September 2018 and up to the date of this Scheme Booklet, the Directors have not received or become aware of any Superior Proposal; and
- the Scheme is a result of an engagement process with Affinity involving the provision of publicly available presentation materials, as well as an exclusive due diligence period. During the course of this process no alternative proposals were received by Scottish Pacific.

The Scheme may be subject to conditions that you consider unacceptable

The implementation of the Scheme is subject to a number of Conditions Precedent including regulatory approvals, approval of the Scottish Pacific Shareholders, Court approval and no Material Adverse Event having occurred. The Conditions Precedent are summarised in Section 3.7(a) and are set out in full in clause 3.1 of the Scheme Implementation Agreement.

1.4 OTHER CONSIDERATIONS RELEVANT TO YOUR VOTE

The Scheme may be implemented even if you vote against it

You should be aware that even if you vote against the Scheme or abstain from voting, the Scheme may still be implemented if it is approved by the Requisite Majorities of Scottish Pacific Shareholders and the Court. If this occurs, your Scottish Pacific Shares will be transferred pursuant to the Scheme and you will receive the Scheme Consideration of:

- \$4.40 per Scottish Pacific Share that you own at the Scheme Record Date (in the case of all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option); and
- in the case of Management Shareholders who make a valid election for the Scrip Option:
 - in respect of 50% of the Scottish Pacific Shares that you own at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus
 - in respect of the balance of the Scottish Pacific Shares that you own at the Scheme Record Date, \$4.40 per Scottish Pacific Share,

even though you did not vote on, or voted against, the Scheme.

Break fee

Depending on the reasons why the Scheme does not proceed, Scottish Pacific or the Bidder may be liable to pay a break fee to the other party. See Sections 3.7(c) and 3.7(d) for further information on the Break Fee and Reverse Break Fee respectively. However, no break fee is payable merely for the reason that Scottish Pacific Shareholders do not approve the Scheme at the Scheme Meetings.

Costs

Scottish Pacific has incurred costs in relation to the proposed Scheme to the point that it is capable of being submitted to Scottish Pacific Shareholders as a scheme of arrangement for their consideration. These costs are incurred in relation to the following activities:

- negotiations with Affinity;
- retention of advisers;
- provision of information to Affinity;
- facilitating Affinity's access to due diligence;
- engagement of the Independent Expert; and
- preparation of this Scheme Booklet.

If the Scheme is not implemented and if no Superior Proposal emerges and becomes effective, Scottish Pacific expects to incur total costs of approximately \$2.4 million which will be paid in the 2019 financial year.

2. Frequently asked questions and answers

This Scheme Booklet contains detailed information regarding the Scheme. This Section provides summary answers to some questions you may have and will assist you to locate further detailed information in this Scheme Booklet. It is not intended to address all relevant issues for Scottish Pacific Shareholders. This Section should be read together with the other parts of this Scheme Booklet.

| QUESTION | ANSWER |
|--|--|
| AN OVERVIEW OF THE SCHEME | |
| What is the Scheme? | <p>The Scheme involves the Bidder acquiring all of the Scottish Pacific Shares for the Scheme Consideration by way of a 'scheme of arrangement'.</p> <p>A 'scheme of arrangement' is a statutory procedure that can be used to enable one company to acquire another under the Corporations Act. It requires a vote in favour of the Scheme by the Requisite Majorities of Scottish Pacific Shareholders at each Scheme Meeting, followed by Court approval.</p> <p>Please refer to Section 3 for a summary of the Scheme</p> |
| Who are the Bidder, Holdco and Affinity? | <p>The Bidder is an unlisted Australian proprietary company which was incorporated for the purpose of holding all the shares in Scottish Pacific post implementation of the Scheme.</p> <p>Holdco is a special purpose company which was incorporated for the purpose of indirectly holding all the shares in the Bidder and issuing Holdco Shares to Management Shareholders who validly elect the Scrip Option. Holdco is an unlisted Australian proprietary company.</p> <p>Concordant, a Singaporean private company, indirectly owns, together with the Co-Investor Parties, Holdco. Concordant is ultimately owned by three limited partnerships which comprise Affinity Asia Pacific Fund IV, and which are advised by Affinity. Affinity is one of largest independent private equity firms in the Asia Pacific region, and has advised and managed approximately US\$14 billion of funds and assets across its five funds since its inception.</p> <p>Please refer to Section 5 for further information in relation to the Bidder, Holdco and Affinity.</p> |
| How will the Scheme be implemented? | <p>In order for the Scheme to be implemented, all Conditions Precedent under the Scheme Implementation Agreement must be satisfied or waived (where capable of waiver), including that the relevant Scheme Resolution must be approved by Scottish Pacific Shareholders at the applicable Scheme Meeting and the Scheme must be approved by the Court.</p> <p>Details of the Scheme Resolution and the Requisite Majorities required to approve the Scheme Resolution are set out in Section 3.3(c).</p> |
| What do the Scottish Pacific Directors recommend? | <p>Your Directors unanimously consider that the Scheme is in the best interests of Scottish Pacific Shareholders and recommend that you vote in favour of the Scheme in the absence of a Superior Proposal. The basis for this recommendation is set out in Section 1.2.</p> <p>Section 1.3 includes a summary of the possible reasons not to vote in favour of the Scheme.</p> |
| How do the Scottish Pacific Directors intend to vote? | <p>Each Director who owns or controls Scottish Pacific Shares intends to vote in favour of the Scheme in the absence of a Superior Proposal.</p> |

| QUESTION | ANSWER |
|---|---|
| <p>What is the Independent Expert's opinion on the Scheme?</p> | <p>The Independent Expert has concluded that:</p> <ul style="list-style-type: none"> the Scheme is fair and reasonable and, therefore, is in the best interests of Scottish Pacific Shareholders (other than Management Shareholders), in the absence of a Superior Proposal; and the Scheme is fair and reasonable and, therefore, is in the best interests of Management Shareholders, in the absence of a Superior Proposal. <p>The Independent Expert has valued Scottish Pacific at \$4.24 to \$4.81 per Scottish Pacific Share.</p> <p>The Scheme Consideration of \$4.40 per Scottish Pacific Share, payable to all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option, is within the valuation range of the Independent Expert.</p> <p>The Independent Expert has assessed the value of Scottish Pacific under the Scrip Option to be, at a minimum, in the range of \$3.64 and \$4.37 per Scottish Pacific Share, excluding potential synergies specific to the Bidder. The assessed value of the Scheme Consideration provided to Management Shareholders who make a valid election for the Scrip Option overlaps with the Independent Expert's valuation range for a Scottish Pacific Share (being at between \$4.24 and \$4.81 per Scottish Pacific Share).</p> <p>The Independent Expert's Report is set out in full in Annexure A.</p> |
| <p>What if the Independent Expert changes its opinion?</p> | <p>If the Independent Expert changes its opinion, this will be announced to ASX and your Directors will carefully consider the Independent Expert's revised opinion and advise you of their recommendation.</p> |
| <p>What are the reasons to vote in favour of the Scheme?</p> | <p>Please refer to Section 1.2 headed "Reasons to vote in favour of the Scheme" for some of the reasons why you may consider voting in favour of the Scheme.</p> |
| <p>What are the reasons not to vote in favour of the Scheme?</p> | <p>Please refer to Section 1.3 headed "Reasons not to vote in favour of the Scheme" for some of the reasons why you may consider voting against the Scheme.</p> |
| <p>What will happen if a Superior Proposal emerges?</p> | <p>If a Superior Proposal is received, this will be announced to the ASX and your Directors will carefully consider the proposal and advise you of their recommendation.</p> |
| <p>Is there a break fee payable by Scottish Pacific?</p> | <p>Depending on the reasons why the Scheme does not proceed, Scottish Pacific may be liable to pay a break fee to the Bidder.</p> <p>Please refer to Section 3.7(c) for further information on the Break Fee.</p> |

Frequently asked questions and answers

| QUESTION | ANSWER |
|--|---|
| What are the risks associated with an investment in Scottish Pacific if the Scheme does not become Effective? | <p>If the Scheme is not implemented, Scottish Pacific Shares will remain quoted on the ASX and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions. As such, if the Scheme is not implemented and no Superior Proposal emerges, it is possible that the price at which Scottish Pacific Shares trade will fall. The Directors and the Scottish Pacific leadership team remain confident in the outlook for the business and the growth strategy it is pursuing leading to expected growth in both earnings per share and dividends per share.</p> <p>Further detail on the risks associated with an investment in Scottish Pacific can be found in Section 6.</p> |
| What transaction costs would Scottish Pacific incur if the Scheme is not implemented? | <p>Before the Scheme Meetings, Scottish Pacific estimates that it will have incurred or committed transaction costs of approximately \$2.4 million in relation to the Scheme. Those costs will be payable by Scottish Pacific regardless of whether the Scheme is approved and becomes effective.</p> |
| AN OVERVIEW OF THE SCHEME CONSIDERATION | |
| What is the Scheme Consideration? | <p>If the Scheme is approved and implemented, Scottish Pacific Shareholders (other than those Management Shareholders who make a valid election for the Scrip Option) will receive the Scheme Consideration of \$4.40 per Scottish Pacific Share held as at the Scheme Record Date.</p> <p>Management Shareholders only may elect the Scrip Option with respect to all of their Scottish Pacific Shares. Management Shareholders who make a valid election for the Scrip Option will receive:</p> <ul style="list-style-type: none"> • in respect of 50% of the Scottish Pacific Shares they hold as at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus • in respect of the balance of the Scottish Pacific Shares they held as at the Scheme Record Date, \$4.40 per Scottish Pacific Share. <p>Please refer to Section 3.6(a) for further information on the Scheme Consideration.</p> |
| How is the Bidder funding the Scheme Consideration? | <p>The Bidder has in place binding equity commitments sufficient to meet its obligations to pay the aggregate Cash Scheme Consideration under the Scheme.</p> <p>Holdco and the Bidder have each entered into the Deed Poll to covenant in favour of the Scheme Shareholders to perform its respective obligations in relation to the Scheme. One such obligation is to provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with the Scheme, including to issue all Holdco Shares required to be issued in respect of valid elections under the Scrip Option.</p> <p>Please refer to Section 5.3 for further information on the funding of the Scheme Consideration.</p> |

| QUESTION | ANSWER |
|---|---|
| <p>When will I receive the Scheme Consideration?</p> | <p>Scheme Shareholders will receive the Scheme Consideration as follows:</p> <ul style="list-style-type: none"> • in relation to any cash component of the Scheme Consideration payable (being \$4.40 per Scottish Pacific Share for all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option, and in respect of the balance of the Scottish Pacific Shares held by Management Shareholders who make a valid election for the Scrip Option (after the issue of 1 Holdco Share per Scottish Pacific Share in respect of 50% of the Scottish Pacific Shares held by those Management Shareholders), \$4.40 per Scottish Pacific Share) – payment will be made on the Implementation Date (expected to be Tuesday, 18 December 2018); and • in relation to the provision of Holdco Shares to Management Shareholders who make a valid election for the Scrip Option – the Holdco Shares will be issued on the Implementation Date (expected to be Tuesday, 18 December 2018), with share certificates to be sent to you within five Business Days of that date. <p>Any cash payment to be made in respect of the Scheme Consideration will be paid by Scottish Pacific by either:</p> <ul style="list-style-type: none"> • depositing (or procuring the deposit of) the relevant amount into an account with any Australian ADI notified to Scottish Pacific by an appropriate authority from the Scheme Shareholder; or • sending (or procuring the sending of) a cheque for the relevant amount in Australian currency, to the address of the Scheme Shareholder as recorded in the Register on the Scheme Record Date by pre-paid ordinary post (or, if the address of the Scheme Shareholder in the Register is outside Australia, by pre-paid airmail post). <p>Please refer to Section 3.6(d) for further information on provision of the Scheme Consideration.</p> |
| <p>What is the Scrip Option?</p> | <p>The Scrip Option is only available to Management Shareholders, given their ongoing role with Scottish Pacific.</p> <p>If Management Shareholders validly elect to receive the Scrip Option, they will receive:</p> <ul style="list-style-type: none"> • in respect of 50% of the Scottish Pacific Shares they hold at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus • in respect of the balance of the Scottish Pacific Shares they hold at the Scheme Record Date, \$4.40 per Scottish Pacific Share. <p>Management Shareholders who make a valid election for the Scrip Option may determine which Scottish Pacific Shares will be exchanged for Holdco Shares and which Scheme Shares will be acquired for cash in accordance with the above.</p> <p>If you have not made a valid election for the Scrip Option and the Scheme is implemented, you will receive the Scheme Consideration of \$4.40 per Scottish Pacific Share in respect of all of your Scottish Pacific Shares held as at the Scheme Record Date.</p> <p>Please refer to Section 3.6(a) for further information on the Scrip Option.</p> |

Frequently asked questions and answers

| QUESTION | ANSWER |
|---|---|
| How do I elect to receive the Scrip Option? | <p>If you are a Management Shareholder and wish to receive the Scrip Option, you need to complete an Election Form in accordance with the instructions set out in the form and return it to the Share Registry by no later than 5:00pm on the Election Date (being Monday, 26 November 2018).</p> <p>Please refer to Section 3.6(c) for further information on electing to receive the Scrip Option.</p> |
| Can I elect the Scrip Option in respect of some but not all of my Scottish Pacific Shares? | <p>No. If you are a Management Shareholder, you can only elect the Scrip Option in respect of all of the Scottish Pacific Shares that you hold as at the Scheme Record Date.</p> |
| What happens if I do not make an election in time or if I have not made a valid election in respect of the Scrip Option? | <p>If you are a Management Shareholder and your election in respect of the Scrip Option is not received by the Share Registry prior to 5:00pm on the Election Date (being Monday, 26 November 2018) or you have not made a valid election, you will receive the Scheme Consideration of \$4.40 per share for all of your Scottish Pacific Shares that you hold as at the Scheme Record Date.</p> |
| Will I have to pay any fees or stamp duty? | <p>No, you will not have to pay brokerage or stamp duty on the transfer of Scottish Pacific Shares under the Scheme.</p> |
| What are the tax consequences of the Scheme for me? | <p>If the Scheme becomes Effective and is implemented, there will be tax consequences for Scheme Shareholders which may include tax being payable on any gain on disposal of Scottish Pacific Shares.</p> <p>For further detail regarding general Australian tax consequences of the Scheme for certain Scottish Pacific Shareholders, refer to Section 7.</p> <p>The tax treatment may vary depending on the circumstances of each Scottish Pacific Shareholder and their specific circumstances including whether they are tax resident in a jurisdiction other than Australia. Accordingly, Scottish Pacific Shareholders should seek professional tax advice in relation to their particular circumstances.</p> |

| QUESTION | ANSWER |
|---|--|
| SCHEME, VOTING AND APPROVALS | |
| <p>Are there any conditions to be satisfied?</p> | <p>Implementation of the Scheme is subject to a number of Conditions Precedent. The Conditions Precedent which remain outstanding as at the date of the Scheme Booklet are:</p> <ul style="list-style-type: none"> • Court approval of the Scheme; • the relevant Scheme Resolution being passed by Scottish Pacific Shareholders at the applicable Scheme Meeting; • no other orders or restraints being issued by regulatory authorities or the Court; • no Material Adverse Effect or Target Prescribed Event occurs; and • the Company entering into arrangements that provide for the cancellation of all Scottish Pacific Options, with that cancellation subject only to the Court approving the Scheme and the Scheme becoming Effective; and • receipt of change of control consents under certain of Scottish Pacific's debt and warehouse funding facilities. <p>The Conditions Precedent to the Scheme are summarised in Section 3.7(a) and set out in full in clause 3.1 of the Scheme Implementation Agreement. A full copy of the Original Scheme Implementation Agreement is available on ASX's website at www.asx.com.au and on Scottish Pacific's website at https://investors.scottishpacific.com/investors/. The Scheme Implementation Agreement is included in Annexure E.</p> <p>As at the date of this Scheme Booklet, the Scottish Pacific Directors are not aware of any reason why these Conditions Precedent should not be satisfied.</p> |
| <p>What happens if the Scheme is approved, all Conditions Precedent are satisfied and it is implemented?</p> | <p>If the Scheme is approved by Scottish Pacific Shareholders at the Scheme Meetings, and by the Court, becomes Effective and is implemented, the Bidder will acquire Scottish Pacific Shares from all Scottish Pacific Shareholders who hold Scottish Pacific Shares at the Scheme Record Date and Scottish Pacific will become a wholly-owned subsidiary of the Bidder and will be delisted from the ASX. For further details, please refer to Section 3.5.</p> |
| <p>Can the Scheme be terminated?</p> | <p>The Scheme Implementation Agreement may be terminated in certain circumstances, details of which are summarised in Section 3.7(e). If the Scheme Implementation Agreement is terminated, the Scheme will not proceed.</p> |

Frequently asked questions and answers

| QUESTION | ANSWER |
|---|---|
| Am I entitled to vote at the Scheme Meetings? | <p>If you are registered as a Scottish Pacific Shareholder on the Register at 7:00pm (Sydney time) on Wednesday, 28 November 2018, then you will be entitled to attend and vote at the:</p> <ul style="list-style-type: none"> • Management Scheme Meeting, if you are a Management Shareholder and have made a valid election for the Scrip Option; or • Scottish Pacific Scheme Meeting, if you are a Scottish Pacific Shareholder (excluding a Management Shareholder who has made a valid election for the Scrip Option). <p>Details of the Scheme Meetings and voting are on pages 12-13.</p> |
| What vote is required to approve the Scheme? | <p>The relevant Scheme Resolution must be passed by the Requisite Majorities of Scottish Pacific Shareholders at the applicable Scheme Meeting, which is:</p> <ul style="list-style-type: none"> • unless the Court orders otherwise, a majority in number (more than 50%) of Scottish Pacific Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of corporate Scottish Pacific Shareholders, by a corporate representative) at the applicable Scheme Meeting; and • at least 75% of the total number of votes cast on the relevant Scheme Resolution at the applicable Scheme Meeting. |
| How do I vote? | <p>You may vote in person by attending the applicable Scheme Meeting. If you cannot attend the applicable Scheme Meeting you may alternatively vote by:</p> <ul style="list-style-type: none"> • Proxy: you may vote by proxy by completing the proxy form accompanying this Scheme Booklet. • Attorney: attorneys who plan to attend the applicable Scheme Meeting should bring with them the proxy form and the original power of attorney (if any) under which the proxy form is signed (or a certified copy of that power of attorney or other authority). • Corporate representative: a body corporate which is a Scottish Pacific Shareholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the applicable Scheme Meeting a properly executed letter or other documentation confirming its authority to act as the company's representative. <p>Details on how to vote at the applicable Scheme Meeting are on pages 12-13.</p> |
| When and where will the Management Scheme Meeting be held? | <p>The Management Scheme Meeting is scheduled to be held at 10:30am (Sydney time) on Friday, 30 November 2018 at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000.</p> |
| When and where will the Scottish Pacific Scheme Meeting be held? | <p>The Scottish Pacific Scheme Meeting is scheduled to be held at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000 immediately following the conclusion of the Management Scheme Meeting. The Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting.</p> |

| QUESTION | ANSWER |
|---|---|
| What happens if I do not vote, or I vote against the Scheme? | <p>If you are a Scottish Pacific Shareholder as at the Scheme Record Date and the Scheme becomes Effective, your Scottish Pacific Shares will be transferred pursuant to the Scheme and you will be entitled to receive the Scheme Consideration for your Scottish Pacific Shares. This is even if you did not vote, or voted against the Scheme.</p> <p>If the Scheme is not approved, you will remain a Scottish Pacific Shareholder.</p> |
| Is voting compulsory? | <p>Voting is not compulsory. However, the Directors believe that the Scheme is important for all Scottish Pacific Shareholders and the Directors unanimously recommend that you approve the Scheme by voting in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Scottish Pacific Shareholders (including Management Shareholders).</p> |
| What happens if Scottish Pacific Shareholder approval is not obtained or the Conditions Precedent to the Scheme are not satisfied? | <p>If:</p> <ul style="list-style-type: none"> the Conditions Precedent to the Scheme becoming Effective are not satisfied or waived (as applicable); the Scheme Implementation Agreement is terminated; the Scheme is not approved by the Requisite Majorities of Scottish Pacific Shareholders; or the Scheme is not approved by the Court, <p>then the Scheme will not be implemented and will not proceed.</p> <p>As set out in Section 3.12, if the Scheme does not proceed:</p> <ul style="list-style-type: none"> Scottish Pacific will remain listed on the ASX; you will retain your Scottish Pacific Shares and continue to share in any benefits and risks of Scottish Pacific's ongoing business; and you will not receive the Scheme Consideration. <p>Scottish Pacific has a strong business model and leadership team. If the Scheme does not proceed, it is the Directors' current intention to continue to operate Scottish Pacific in line with its previously stated objectives.</p> |
| Can I keep my Scottish Pacific Shares? | <p>If the Scheme is implemented, your Scottish Pacific Shares will be transferred to the Bidder.</p> <p>This is so even if you did not vote at all or you voted against the relevant Scheme Resolution at applicable Scheme Meeting.</p> |
| When will the results of the Scheme Meetings be available? | <p>The results of the Scheme Meetings will be available shortly after the conclusion of each Scheme Meeting and will be announced to the ASX once available. The results will also be published on https://investors.scottishpacific.com/investors/ soon after the Scheme Meetings.</p> |

Frequently asked questions and answers

| QUESTION | ANSWER |
|---|--|
| What do I do if I oppose the Scheme? | <p>If you, as a Scottish Pacific Shareholder, oppose the Scheme, you should:</p> <ul style="list-style-type: none">• attend the applicable Scheme Meeting either in person or by proxy and vote against the relevant Scheme Resolution; and/or• if Scottish Pacific Shareholders pass the relevant Scheme Resolution at each Scheme Meeting and you wish to appear and be heard at the Second Court Hearing and if so advised, oppose the approval of the Scheme at the Second Court Hearing, you must lodge a notice of intention to appear at the Second Court Hearing, attend the hearing and indicate opposition to the Scheme. |
| FURTHER INFORMATION | |
| Where can I get further information? | <p>If you have any questions about the Scheme, please contact the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) on Business Days between 8:30am to 5:30pm (Sydney time).</p> |

3. Summary of the Scheme

3.1 SCHEME

On Monday, 24 September 2018, Scottish Pacific announced that it had entered into the Original Scheme Implementation Agreement with the Bidder. On 24 October 2018, the parties entered into the Scheme Implementation Agreement which amended and replaced the Original Scheme Implementation Agreement. Under the Scheme Implementation Agreement, it is proposed that the Bidder will acquire all of the Scottish Pacific Shares on issue. The acquisition will be effected by way of a Court-approved scheme of arrangement, enabling Scottish Pacific Shareholders to vote on the Scheme.

If the Scheme is approved by Scottish Pacific Shareholders at the Scheme Meetings, the Scheme becomes Effective and is implemented, the Bidder will acquire Scottish Pacific Shares from all Scottish Pacific Shareholders who hold Scottish Pacific Shares at the Scheme Record Date (whether or not they voted for the Scheme (and even if they voted against the Scheme)) and Scottish Pacific will become a wholly-owned subsidiary of the Bidder and will be delisted from the ASX.

The Scheme will not proceed if the Scheme is not approved by Scottish Pacific Shareholders at the Scheme Meetings and Scottish Pacific will continue as a stand-alone entity listed on the ASX.

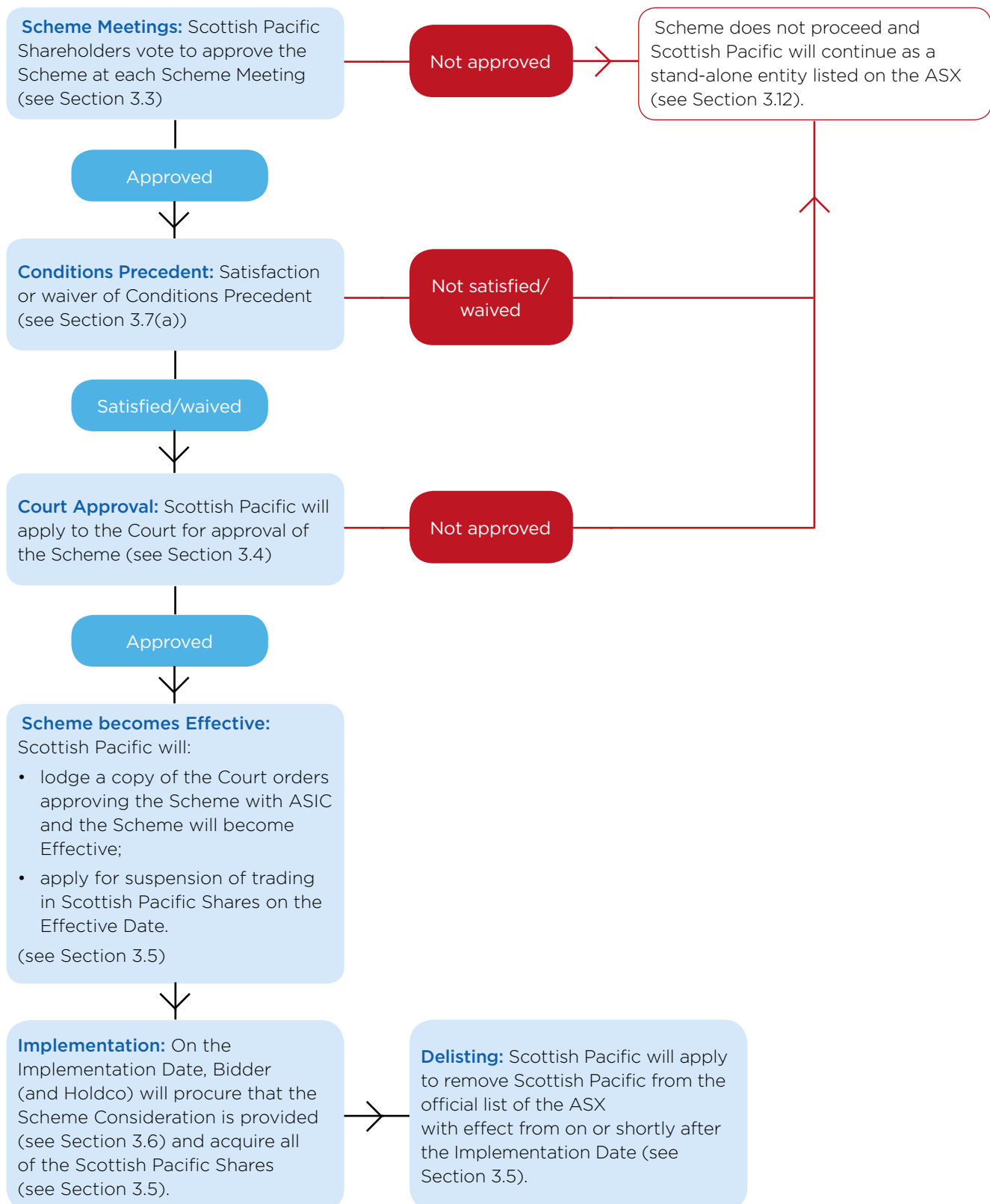
The steps for implementing the Scheme are outlined in Section 3.2.

This Scheme Booklet contains information that the Scottish Pacific Board considers is material to Scottish Pacific Shareholders in making a decision whether or not to vote in favour of the Scheme. You should carefully read this Scheme Booklet as part of your consideration of the Scheme.

Summary of the Scheme

3.2 STEPS FOR IMPLEMENTING THE SCHEME

The key steps for implementing the Scheme is as follows:



3.3 SCHEME MEETINGS

(A) DETAILS OF THE MANAGEMENT SCHEME MEETING

A meeting of Management Shareholders who have made a valid election for the Scrip Option to consider the Scheme is expected to be held at 10:30am (Sydney time) on Friday, 30 November 2018 at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000 for the purposes of approving the relevant Scheme Resolution. The Notice of Management Scheme Meeting which sets out the relevant Scheme Resolution is included in Annexure D to this Scheme Booklet.

Each Management Shareholder who has made a valid election for the Scrip Option and who is registered on the Register at 7:00pm on Wednesday, 28 November 2018 is entitled to attend and vote at the Management Scheme Meeting, either in person or by proxy or attorney or in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act.

Instructions on how to attend and vote at the Management Scheme Meeting in person, or to appoint a proxy to attend and vote on your behalf, are set out in the “How to Vote” section of this Scheme Booklet.

(B) DETAILS OF THE SCOTTISH PACIFIC SCHEME MEETING

A meeting of Scottish Pacific Shareholders (excluding those Management Shareholders who have made a valid election for the Scrip Option) to consider the Scheme is expected to be held immediately following the conclusion of the Management Scheme Meeting at Dexus Place, Level 5, 1 Margaret Street, Sydney NSW 2000 for the purposes of approving the relevant Scheme Resolution. The Annual General Meeting will commence immediately following the conclusion of the Scottish Pacific Scheme Meeting. The Notice of Scottish Pacific Scheme Meeting which sets out the relevant Scheme Resolution is included in Annexure D to this Scheme Booklet.

Each Scottish Pacific Shareholder (excluding those Management Shareholders who have made a valid election for the Scrip Option) who is registered on the Register at 7:00pm on Wednesday, 28 November 2018 is entitled to attend and vote at the Scottish Pacific Scheme Meeting, either in person or by proxy or attorney or in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act.

Instructions on how to attend and vote at the Scottish Pacific Scheme Meeting in person, or to appoint a proxy to attend and vote on your behalf, are set out in the “How to Vote” section of this Scheme Booklet.

(C) APPROVALS REQUIRED FROM SCOTTISH PACIFIC SHAREHOLDERS

At the Scheme Meetings, Scottish Pacific Shareholders will be asked to consider and, if thought fit, approve the relevant Scheme Resolution. The relevant Scheme Resolution must be approved by the Requisite Majorities, being:

- unless the Court orders otherwise, a majority in number (more than 50%) of Scottish Pacific Shareholders present and voting at the applicable Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Scottish Pacific Shareholders, by a corporate representative); and
- at least 75% of the total number of votes cast on the relevant Scheme Resolution at the applicable Scheme Meeting.

3.4 SECOND COURT HEARING

(A) APPLICATION TO THE COURT

Scottish Pacific will apply to the Court at the Second Court Hearing for orders to approve the Scheme if:

- the Scheme is agreed by the Requisite Majorities of Scottish Pacific Shareholders at the Scheme Meetings; and
- all other Conditions Precedent (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver) (see Section 3.7(a)).

Summary of the Scheme

(B) DATE AND LOCATION OF SECOND COURT HEARING

The date on which the Court hears Scottish Pacific's application is the Second Court Date, which is expected to be at 9:30am on Friday, 7 December 2018. Any change to this date will be announced through the ASX. The hearing will be held at the Supreme Court of Victoria, 450 Little Bourke Street, Melbourne VIC 3000.

(C) COURT APPROVAL

The Court may refuse to grant the orders referred to above even if the Scheme is approved by the Requisite Majorities of the Scottish Pacific Shareholders.

ASIC has been asked to issue a written statement that it has no objection to the Scheme. ASIC would not be expected to issue such a statement until shortly before the Second Court Date. If ASIC does not produce a written statement that it has no objection to the Scheme, the Court may still approve the Scheme provided it is satisfied that the Scheme has not been proposed for the purpose of enabling a person to avoid the operation of any of the takeovers provisions in Chapter 6 of the Corporations Act.

Each Scottish Pacific Shareholder has the right to appear at the Second Court Hearing. Any Scottish Pacific Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court, and serving on Scottish Pacific, a notice of appearance, in the prescribed form, together with any affidavit on which the Scottish Pacific Shareholder wishes to rely at the Second Court Hearing at least one day before the Second Court Hearing.

3.5 WHAT HAPPENS IF THE SCHEME PROCEEDS?

(A) PARTICIPATION BY SCHEME SHAREHOLDERS IN THE SCHEME

If the Scheme is approved by Scottish Pacific Shareholders at the Scheme Meetings and by the Court at the Second Court Hearing, all Scottish Pacific Shareholders who hold Scottish Pacific Shares as at the Scheme Record Date will participate in the Scheme (whether or not they voted for the Scheme (and even if they voted against the Scheme)).

(B) SCHEME BECOMES EFFECTIVE

Once the Court approves the Scheme, Scottish Pacific will lodge with ASIC the office copy of the order of the Court made under section 411(4)(b) of the Corporations Act approving the Scheme, at which time the Scheme will become Effective. Scottish Pacific intends to lodge the order of the Court with ASIC on the same date as the Second Court Date, which is expected to be Friday, 7 December 2018.

(C) SUSPENSION OF TRADING OF SCOTTISH PACIFIC SHARES

After the Scheme becomes Effective, Scottish Pacific will notify ASX and apply for Scottish Pacific Shares to be suspended from trading from close of trading on the Effective Date. Scheme Shareholders must not dispose of or purport or agree to dispose of, any Scottish Pacific Shares or any interest in them after the Scheme Record Date. Scottish Pacific will disregard any such disposal and any attempt to do so will have no effect.

(D) IMPLEMENTATION OF THE SCHEME

The Scheme will be implemented on the Implementation Date, which is expected to be Tuesday, 18 December 2018. Upon implementation of the Scheme:

- the Bidder (and Holdco) will procure that the Scheme Consideration is provided (see Section 3.6(d));
- subject to provision of the Scheme Consideration, all Scottish Pacific Shares will be transferred to the Bidder and Scottish Pacific will enter the name of the Bidder in the Register in respect of all Scottish Pacific Shares; and
- Scottish Pacific will become a wholly-owned subsidiary of the Bidder.

(E) DELISTING OF SCOTTISH PACIFIC

The Bidder will arrange for an application to be made to ASX for Scottish Pacific to be removed from the official list of ASX with effect from on or shortly after the Implementation Date (see Section 5.5(b)).

The detailed terms of the Scheme are set out in Annexure B.

3.6 SCHEME CONSIDERATION

(A) DETAILS OF SCHEME CONSIDERATION

If the Scheme becomes Effective and is implemented, each Scottish Pacific Shareholder will receive the Scheme Consideration in respect of the Scottish Pacific Shares held by them as at the Scheme Record Date as set out below.

Scheme Consideration

Scottish Pacific Shareholders (other than Management Shareholders who make a valid election for the Scrip Option) will receive the Scheme Consideration equal to \$4.40 per share in respect of all of the Scottish Pacific Shares that they hold as at the Scheme Record Date.

Scottish Pacific Shareholders (other than Management Shareholders) do not have to make any election to receive the Scheme Consideration of \$4.40 per Scottish Pacific Share.

Scrip Option

As an alternative to receiving the Scheme Consideration of \$4.40 per Scottish Pacific Share, Management Shareholders only can elect to receive the Scrip Option in respect of all (but not some) of their Scottish Pacific Shares.

Management Shareholders who make a valid election for the Scrip Option will receive:

- (i) in respect of 50% of the Scottish Pacific Shares they hold at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus
- (ii) in respect of the balance of the Scottish Pacific Shares they hold at the Scheme Record Date, \$4.40 per Scottish Pacific Share.

Management Shareholders who elect the Scrip Option may determine which Scheme Shares will be exchanged for Holdco Shares in accordance with paragraph (i) above, and which Scheme Shares will be acquired for cash in accordance with paragraph (ii) above.

(B) DETERMINATION OF PERSONS ENTITLED TO SCHEME CONSIDERATION

Scheme Record Date

The Scheme Record Date is anticipated to be 5:00pm on Wednesday, 12 December 2018. Only Scottish Pacific Shareholders who appear on the Register on the Scheme Record Date will be entitled to receive the Scheme Consideration.

For the purpose of establishing the persons who are Scheme Shareholders, dealings in Scottish Pacific Shares will only be recognised if:

- in the case of dealings of the type to be effected by CHESS, the transferee is registered on the Register as a holder of the relevant Scottish Pacific Shares as at 5:00pm on the Scheme Record Date; and
- in all other cases, registrable transfers or transmission applications are received by the Share Registry on or before 5:00pm on the Scheme Record Date (in which case, Scottish Pacific must register such transfers or transmission applications by 5:00pm on the Scheme Record Date).

Scottish Pacific will not accept for registration nor recognise for the purpose of establishing the persons who are Scheme Shareholders any transmission application or transfer in respect of Scottish Pacific Shares received after such times or received prior to these times and not in registrable form.

After 5:00pm on the Scheme Record Date, each entry on the Register will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Scottish Pacific Shares relating to that entry.

Scottish Pacific will, until the Scheme Consideration has been provided to Scheme Shareholders and the name and address of the Bidder has been entered in the Register as the holder of all the Scottish Pacific Shares, maintain the Scottish Pacific Register in accordance with the terms of the Scheme, and the Register in this form will solely determine entitlements to the Scheme Consideration.

Summary of the Scheme

Any share certificates or statements of holding in respect of Scottish Pacific Shares will, from the Scheme Record Date, cease to have any effect as documents of evidence of title in respect of such Scottish Pacific Shares.

(C) HOW MANAGEMENT SHAREHOLDERS CAN MAKE AN ELECTION TO RECEIVE THE SCRIP OPTION

Management Shareholders only can make an election to receive the Scrip Option by returning an Election Form. An election will only be valid if it is made using an Election Form and is received by the Share Registry by no later than 5:00pm on the Election Date (being Monday, 26 November 2018).

Management Shareholders may contact the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) on Business Days between 8:30am and 5:30pm (Sydney time) and request an Election Form be sent to them.

In order to make a valid election for the Scrip Option, you must be a Management Shareholder.

Valid elections will apply to all Scottish Pacific Shares held by a Management Shareholder as at the Scheme Record Date. A Management Shareholder who makes an election may subsequently vary or withdraw it by lodging a replacement Election Form so that it is received by the Share Registry by no later than 5:00pm on the Election Date (being Monday, 26 November 2018).

Scottish Pacific Shareholders who do not submit a valid Election Form to the Share Registry, or who submit an Election Form to the Share Registry after 5:00pm on the Election Date (being Monday, 26 November 2018), will receive the Scheme Consideration of \$4.40 per share for all of their Scottish Pacific Shares.

(D) PROVISION OF SCHEME CONSIDERATION

Deposit of aggregate Cash Scheme Consideration by the Bidder

By Monday, 17 December 2018, the Bidder will deposit (or will procure the deposit of) the aggregate amount of the Cash Scheme Consideration payable to all Scheme Shareholders in immediately available funds to an account with an Australian ADI nominated by Scottish Pacific to be held on trust by Scottish Pacific for Scheme Shareholders.

The aggregate Cash Scheme Consideration comprises an amount equal to the aggregate amount of the cash component of the Scheme Consideration payable to Scheme Shareholders under the Scheme, being:

- \$4.40 per Scottish Pacific Share, payable to all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option; and
- in respect of the balance of the Scottish Pacific Shares held by Management Shareholders who make a valid election for the Scrip Option (after the issue of 1 Holdco Share per Scottish Pacific Share in respect of 50% of the Scottish Pacific Shares held by those Management Shareholders), \$4.40 per Scottish Pacific Share, payable to those Management Shareholders.

Payment of Cash Scheme Consideration

If the Scheme becomes Effective and is implemented, the Cash Scheme Consideration will be paid to all Scheme Shareholders.

The cash payments to be made in respect of the Cash Scheme Consideration will be paid by Scottish Pacific by either:

- depositing (or procuring the deposit of) the relevant amount into an account with any Australian ADI notified to Scottish Pacific by an appropriate authority from the Scheme Shareholder; or
- sending (or procuring the sending of) a cheque for the relevant amount in Australian currency, to the address of the Scheme Shareholder as recorded in the Register on the Scheme Record Date by pre-paid ordinary post (or, if the address of the Scheme Shareholder in the Register is outside Australia, by pre-paid airmail post).

If you have not previously notified Scottish Pacific of your nominated Australian ADI account or you would like to change your existing nominated Australian ADI account, you should contact the Share Registry on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) Monday to Friday between 8:30am and 5:30pm (Sydney time) before the Scheme Record Date.

Holdco Shares under the Scrip Option

Management Shareholders who have validly elected to take the Scrip Option will:

- in respect of 50% of the Scottish Pacific Shares they hold at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus
- in respect of the balance of the Scottish Pacific Shares they hold at the Scheme Record Date, \$4.40 per Scottish Pacific Share.

The Holdco Shares will be issued on the Implementation Date by entering the name of each Management Shareholder who has made a valid election for the Scrip Option in Holdco's register of members. A certificate detailing holdings of Holdco Shares in the name of those Management Shareholders will be issued within 5 Business Days of the Implementation Date.

3.7 SCHEME IMPLEMENTATION AGREEMENT

On Monday, 24 September 2018, Scottish Pacific and the Bidder entered into the Original Scheme Implementation Agreement. On 24 October 2018, the parties entered into the Scheme Implementation Agreement which amended and replaced the Original Scheme Implementation Agreement. Under the Scheme Implementation Agreement, subject to the satisfaction or waiver of a number of conditions, it is proposed that the Bidder will acquire all of the Scottish Pacific Shares pursuant to a scheme of arrangement.

The Scheme Implementation Agreement contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Scottish Pacific's obligation to conduct its business in the ordinary course during the Scheme process.

A summary of the key elements of the Scheme Implementation Agreement is set out below. A full copy of the Original Scheme Implementation Agreement was lodged with ASX on Monday, 24 September 2018 and the Scheme Implementation Agreement is included in this Scheme Booklet as Annexure E and can be obtained from www.asx.com.au or from <https://investors.scottishpacific.com/investors/>.

(A) CONDITIONS PRECEDENT

Implementation of the Scheme is subject to a number of Conditions Precedent which be satisfied or (where applicable) waived before the Scheme can be implemented.

The Conditions Precedent include but are not limited to the following:

- **(Regulatory approvals):** receipt of approvals, consents or relief from regulatory authorities (including ASIC, ASX, FIRB and certain other foreign regulatory bodies such as FCA) which are necessary to implement the Scheme;
- **(Shareholder approval)** Scottish Pacific Shareholders approve the Scheme at the Scheme Meetings by the Requisite Majorities;
- **(Court approval)** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- **(No Material Adverse Effect)** no Material Adverse Effect or Target Prescribed Event having occurred;
- **(Scottish Pacific Options)** the Company entering into arrangements that provide for the cancellation of all Scottish Pacific Options, with that cancellation subject only to the Court approving the Scheme and the Scheme becoming Effective; and
- **(Change of control consents)** receipt of change of control consents under certain of Scottish Pacific's debt and warehouse funding facilities.

The Conditions Precedent are set out in full in clause 3.1 of the Scheme Implementation Agreement which is included in Annexure E.

Summary of the Scheme

(B) EXCLUSIVITY

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of the Bidder. These arrangements are in line with market practice in this regard and are summarised below.

During the Exclusivity Period:

- **(No-shop)** Scottish Pacific must not solicit, invite, encourage or initiate any enquiries, negotiations or discussions with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction, or communicate any intention to do so;
- **(No-talk)** Scottish Pacific must not negotiate, enter into, or participate in negotiations or discussions with any other person regarding, or which may reasonably be expected to lead to, a Competing Transaction;
- **(No due diligence)** Scottish Pacific must not enable any person other than the Bidder to undertake due diligence investigations on the Scottish Pacific Group, or make available to any person other than the Bidder any non-public information in relation to the Scottish Pacific Group;
- **(Notification obligation)** Scottish Pacific must notify the Bidder if it receives an unsolicited approach, or provides or is requested to provide information to a third party with respect to any current or future Competing Transaction, and must provide the Bidder with materials details of the Competing Transaction; and
- **(Matching Right)** Scottish Pacific is prohibited from entering into an agreement or understanding (whether or not in writing) to undertake an actual, proposed or potential Competing Transaction and must use its reasonable endeavours to procure that no Scottish Pacific Director changes or withdraws their recommendation in favour of the Scheme to publicly recommend the Competing Transaction unless, among other things, Scottish Pacific has given the Bidder 5 Business Days to provide a matching or superior counterproposal to the Competing Transaction.

However, Scottish Pacific is not required to comply with its obligations under the No-talk and No due diligence provisions in the Scheme Implementation Agreement if the Scottish Pacific Board determines in good faith and acting reasonably that complying with these provisions would constitute, or be reasonably likely to constitute, a breach of the fiduciary and statutory duties owed by the Scottish Pacific Board.

These exclusivity arrangements are set out in full in clause 10 of the Scheme Implementation Agreement.

(C) BREAK FEE

The Break Fee provisions are set out in clause 11 of the Scheme Implementation Agreement.

In summary, Scottish Pacific must pay to the Bidder a break fee of \$6,100,000 if:

- **(Competing Transaction)** on or before the End Date, a Competing Transaction is announced and within 12 months of the End Date, the person announcing or making the Competing Transaction completes the Competing Transaction or acquires a Relevant Interest in more than 50% of Scottish Pacific Shares;
- **(Change of recommendation)** any Scottish Pacific Director fails to make, withdraws, adversely changes or qualifies their recommendation that he or she no longer supports the Scheme, except where:
 - (i) the change of recommendation or statement is made after the Independent Expert concludes that the Scheme is not in the best interests of Scottish Pacific Shareholders (other than where a Competing Transaction has been proposed or announced before the report is issued which the Independent Expert may reasonably regard to be on more favourable terms than the Scheme); or
 - (ii) Scottish Pacific terminates the Scheme Implementation Agreement due to material breach by the Bidder; or
- **(Termination)** the Bidder validly terminates the Scheme Implementation Agreement due to material breach of the Scheme Implementation Agreement by Scottish Pacific or a person (other than the Bidder or its associates) acquiring a Relevant Interest in more than 20% of Scottish Pacific Shares.

The Scottish Pacific Directors consider the Break Fee to be appropriate in amount, structure and effect. The fee is not payable if the Scheme does not proceed merely because Scottish Pacific Shareholders do not vote in favour of the Scheme in sufficient numbers to satisfy the legal requirements.

(D) REVERSE BREAK FEE

The Reverse Break Fee provisions are set out in clause 12 of the Scheme Implementation Agreement.

In summary, the Bidder must pay to Scottish Pacific a reverse break fee of \$6,100,000 if the Scheme does not proceed in circumstances where Scottish Pacific terminates the Scheme Implementation Agreement due to material breach of the Scheme Implementation Agreement by the Bidder.

The Reverse Break Fee is not payable by the Bidder if the Scheme becomes Effective.

(E) TERMINATION RIGHTS

The termination rights of Scottish Pacific and the Bidder are set out in clause 14 of the Scheme Implementation Agreement. In summary, the Scheme Implementation Agreement may be terminated by either Scottish Pacific or the Bidder:

- if the Scheme has not become Effective on or before the End Date;
- where the other party is in material breach of its obligations under the Scheme Implementation Agreement and fails to remedy that breach within 10 Business Days of being provide notification to do so by the other party;
- in certain circumstances where there is a breach or non-fulfilment of a Condition Precedent (which is not waived) or an event occurs which would prevent a Condition Precedent being satisfied, and Scottish Pacific and the Bidder are not able reach agreement on how to proceed; or
- if the Court refuses to make orders convening the Scottish Pacific Scheme Meeting and/or the Management Scheme Meeting or approving the Scheme, and Scottish Pacific and the Bidder agree not to appeal that Court's decision or an independent senior counsel advises that an appeal would have no reasonable prospect of success.

The Bidder can also decide to terminate the Scheme Implementation Agreement if any member of the Scottish Pacific Board changes its recommendation that Scottish Pacific Shareholders vote in favour of the Scheme Resolution, or if a person (other than the Bidder or its associates) acquires a Relevant Interest in more than 20% of Scottish Pacific Shares.

Scottish Pacific and the Bidder may also terminate the Scheme Implementation Agreement by mutual agreement.

3.8 WARRANTY BY SCHEME SHAREHOLDERS ABOUT THEIR SCOTTISH PACIFIC SHARES

Under the terms of the Scheme, each Scheme Shareholder is deemed to have warranted to the Bidder, and is deemed to have authorised Scottish Pacific as its attorney and agent to warrant to the Bidder, that:

- all their Scottish Pacific Shares (including any rights and entitlements attaching to those shares) which are transferred to the Bidder under the Scheme will, at the date of transfer, be fully paid and free from all encumbrances, including mortgages, charges, liens and any "security interest" as defined under section 12 of the *Personal Property Securities Act 2009* (Cth), or any agreement to create any of them or allow them to exist; and
- they have full power and capacity to transfer their Scottish Pacific Shares to the Bidder, together with any rights and entitlements attaching those shares.

3.9 DEED POLL

The Bidder and Holdco have executed the Deed Poll in favour of the Scheme Shareholders, by which they both agree to perform all of their obligations in relation to the Scheme, if it becomes Effective. A copy of the Deed Poll is contained in Annexure C.

Summary of the Scheme

3.10 SCOTTISH PACIFIC OPTIONS

As at the date of this Scheme Booklet, Scottish Pacific has 4,243,619 Scottish Pacific Options on issue. Prior to the Scheme being implemented:

- 300,242 Scottish Pacific Options will be cancelled for nil consideration; and
- the remaining 3,943,377 Scottish Pacific Options will be cancelled in exchange for cash payments from Scottish Pacific equivalent to the Scheme Consideration net of the relevant exercise price that the relevant holder would have received had their Scottish Pacific Options been validly exercised or converted prior to the Scheme Meetings.

3.11 END DATE

If the Scheme has not become Effective on or before the End Date (expected to be 15 March 2019), either Scottish Pacific or Bidder is able to terminate the Scheme Implementation Agreement. If the Scheme Implementation Agreement is terminated, the Scheme will not proceed.

3.12 WHAT IF THE SCHEME DOES NOT PROCEED?

If the Scheme is not approved at either Scheme Meeting or all other Conditions Precedent to the Scheme are not waived or satisfied (as applicable), the Scheme will not proceed and:

- Scottish Pacific will continue to operate as an independent entity listed on ASX;
- Scottish Pacific Shareholders will not receive the Scheme Consideration; and
- Scottish Pacific Shareholders will continue to hold their Scottish Pacific Shares and any share in the benefits and risks of Scottish Pacific Group's ongoing business.

Depending on the reasons why the Scheme does not proceed, Scottish Pacific may be liable to pay the Break Fee to the Bidder. See Section 3.7(c) for further information on the Break Fee.

If the Scheme is not implemented, and in absence of a Superior Proposal, Scottish Pacific Shares will likely trade below the price at which they have traded since announcement of the Scheme Implementation Agreement on Monday, 24 September 2018. The Directors and leadership team of Scottish Pacific are confident in the business outlook and growth strategy and expect to generate continued growth in earnings per share and dividends per share.

3.13 FURTHER INFORMATION

If you have any questions or require further information about the Scheme, you should contact the Scottish Pacific Shareholder Information Line on 1300 668 378 (within Australia) or +61 1300 668 378 (outside Australia) on Business Days between 8:30am and 5:30pm (Sydney time). You should seek independent financial, legal, taxation or other professional advice before making any decision regarding this Scheme.

4. Information about Scottish Pacific

4.1 OVERVIEW

(A) INTRODUCTION

Established in 1988, Scottish Pacific is Australia and New Zealand's largest specialist provider of working capital solutions with a comprehensive range of debtor finance and trade finance facilities. Scottish Pacific employs close to 300 staff and offers customers solutions which are tailored to improving cash flow to generate the funds that small and medium sized businesses need to realise their goals. It has 30 years' experience dealing with 4,000+ brokers and 2,000+ accountants. Its leadership team also has 100+ years of combined small business finance experience. Scottish Pacific has fully-operational offices in Sydney, Melbourne, Brisbane, Perth, Auckland and London and a support office in Guangzhou.

Scottish Pacific's core business is Debtor Finance which is provided through two key products: Discounting and Factoring (which are discussed further later in this Section 4.1). Other related products such as Trade and Specialist Finance are also offered but only represent less than 10% of Scottish Pacific Group's loan exposure. Scottish Pacific has 1,600+ clients, ~\$17.5 billion in annual Turnover, a total loan book of >\$1 billion and net assets of \$207 million.⁶ Scottish Pacific is the largest non-bank provider of Debtor Finance in Australia. It also employs a capital light model with only 5% equity support required for new Debtor Finance loans.

Scottish Pacific's market capitalisation on 19 September 2018 (being the trading day prior to Scottish Pacific's announcement that it had entered into the Original Scheme Implementation Agreement) was ~\$521 million.⁷

(B) CORPORATE HISTORY

Scottish Pacific was established by the divestment of Hallmark Business Finance from Mercantile Credits in 1988. The business was named Scottish Pacific Business Finance after the Bank of Scotland purchased a majority holding in Hallmark Business Finance in 1988. The business commenced operations in New Zealand in 1992.

The business was run independently as a specialty Debtor Financier from 1997 after former management purchased the business from Bank of Scotland until its acquisition by St. George Bank in 2002. In 2006, St. George Bank restructured its Scottish Pacific Business Finance division, leaving only factoring Clients under the Scottish Pacific brand.

Separately in 1998, current Scottish Pacific CEO Peter Langham established another Debtor Financier in Perth, Benchmark Debtor Finance. Benchmark Debtor Finance established operations in Melbourne and Sydney before being acquired by Allfinance Benchmark Holding Trust in 2005.

Allfinance Benchmark Holding Trust acquired Scottish Pacific Business Finance in 2007, with the merged entity renamed Scottish Pacific. The combination of these businesses provided a broadened distribution network across Australia and New Zealand, greater Client diversification, and a strong platform for future growth.

Between 2010 and 2016 Scottish Pacific was jointly owned by management and professional investors. The professional investors include a fund advised by Lazard Australia Private Equity which acquired a controlling stake in 2010 and a consortium of investors (including management) led by Next Capital which acquired Scottish Pacific in 2013. Patrick Elliott from Next Capital remains Scottish Pacific's Chairman today.

In December 2015, Scottish Pacific acquired Bibby, the Australian and New Zealand operations of UK-based Bibby Financial Services Limited, followed by the acquisition of the Australian Client relationships and accounts forming part of GE's Australian Debtor Finance Client portfolio and Suncorp's Debtor Finance Client portfolio in May 2016.

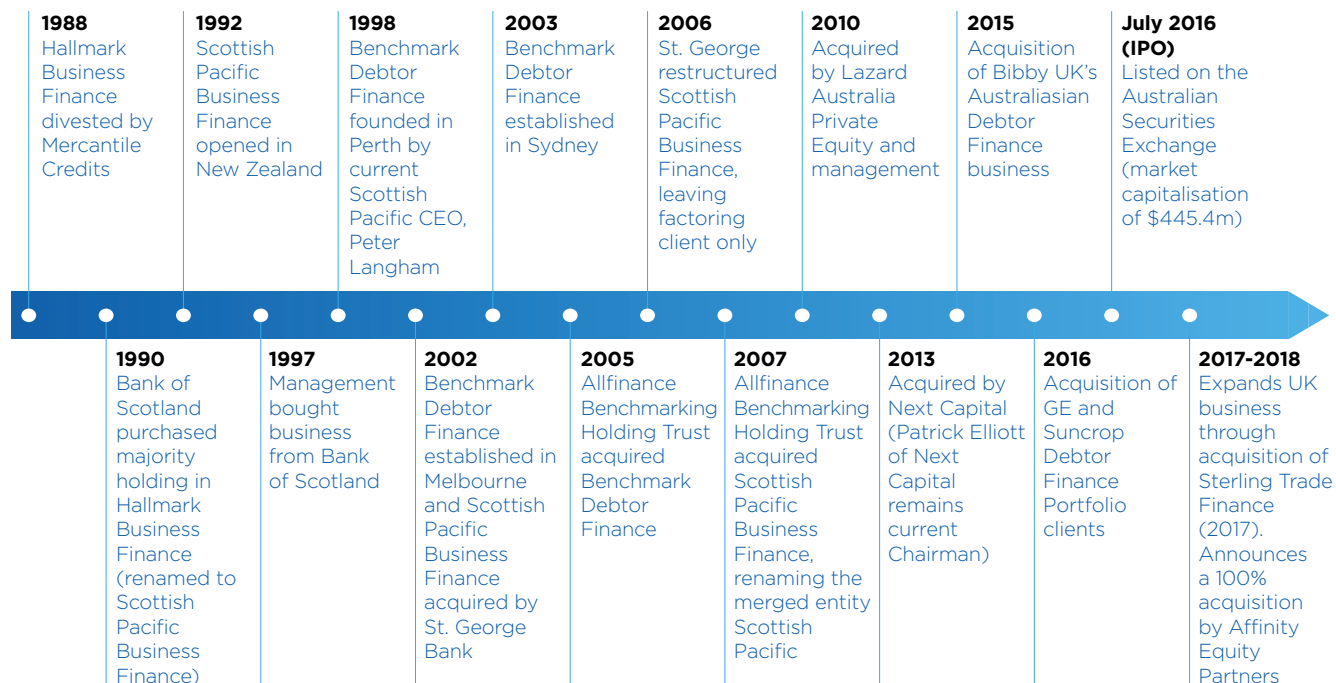
In July 2016, Scottish Pacific was listed on the ASX. Scottish Pacific's market capitalisation at the time of the IPO was \$445.4 million (based on an offer price of \$3.20 per share).

⁶ As at 30 June 2018.

⁷ Represented by 139,191,601 Scottish Pacific Shares on issue on 23 September 2018 multiplied by the \$3.74 closing share price on 19 September 2018 (being the last trading day prior to entering into trading halt and announcing the Scheme).

Information about Scottish Pacific

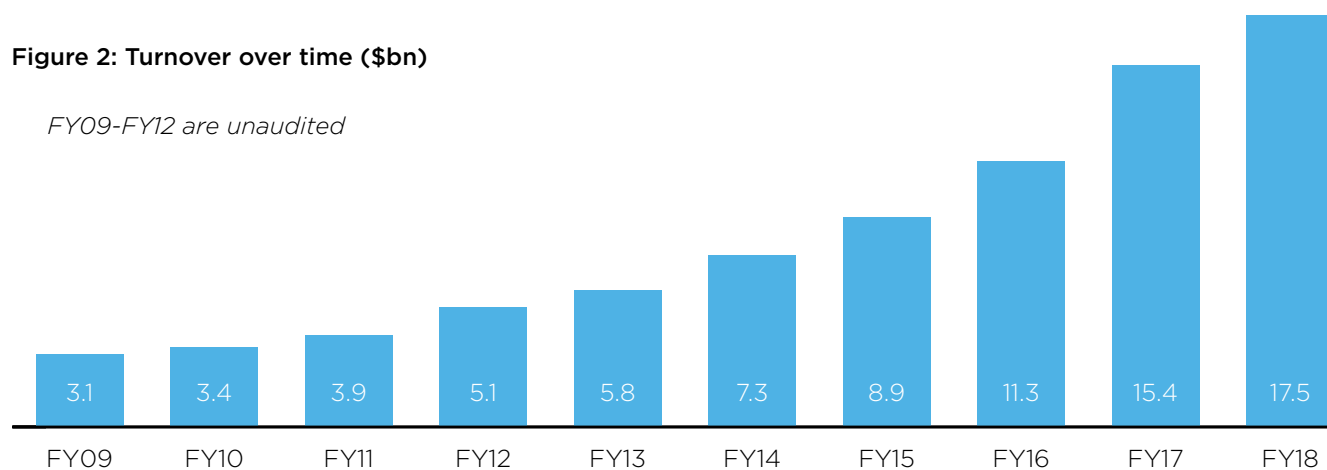
Figure 1: Key milestone's in Scottish Pacific's history



Under its current management, Scottish Pacific has grown Turnover at a ~21.2% CAGR since FY09.

Figure 2: Turnover over time (\$bn)

FY09-FY12 are unaudited



(C) OVERVIEW OF SCOTTISH PACIFIC'S BUSINESS MODEL

Overview

Scottish Pacific sources Clients through a variety of distribution networks and advances lines of credit to them. These advances are secured against the Client's outstanding accounts receivable. Scottish Pacific recovers the funds advanced to Clients from the receivables, which are generally payable to Scottish Pacific within 90 days. Scottish Pacific will typically pay up to 80% to 85% of the value of approved invoices, less their fees. The remaining amount becomes available once the invoice is paid in full.

Scottish Pacific safeguards against loss from non-payment via a number of standard business processes (detailed later in this Section 4.1(c)). This model has resulted in consistently low historical losses for Scottish Pacific, with Scottish Pacific adopting a collective provision policy of 0.30%⁸ of total exposure.

⁸ Refer Scottish Pacific FY18 Annual Report.

How Scottish Pacific generates revenue

Scottish Pacific offers Debtor Finance and other related products to its Clients, including both Discounting and Factoring products. Discounting products are typically lower margin and less service intensive and represent ~50.1% of Scottish Pacific's Debtor Finance exposure. Alternatively, Factoring products generally attract a higher margin in order to match Clients' needs with appropriate credit controls. The main variation in Factoring is Scottish Pacific's involvement and the amount of collections work conducted. In addition to its core Debtor Finance product, Scottish Pacific offers complementary products:

- **Trade Finance.** This product is designed to assist international trade by enabling Clients who trade internationally to obtain financing. Offerings include lines of credit to help purchase goods, complete end-to-end funding solutions or advancements made against export invoices.
- **Asset Finance.** Offering to access funding against inventory, plant and equipment or property.
- **Bad Debt Protected Facilities.** This product is aimed at attracting a larger target market and improving Scottish Pacific's value add for existing Clients.

Scottish Pacific earns revenue by charging its Clients Management Fees and interest charges for the provision of financing facilities. These Management Fees and interest charges compensate Scottish Pacific for borrowing costs incurred to fund the loans it provides to Clients, operational costs associated with underwriting and servicing the loans, and potential credit losses and vary according to the product.

Components of Management Fees include percentage based administration fee charged on the face value of assigned invoices (turnover), fixed monthly fees, administration, application, liquidated damages, legal, export and other fees (including fees from Trade Finance and other). Components of Net Interest Income include a daily base rate and margin on drawn net funding Exposure less interest paid for funding costs, commission and unused line fees.

Operations

Scottish Pacific focuses its activities on the parts of Debtor Finance that it can apply its core capabilities and derive the strongest returns. Key components of Scottish Pacific's operations include:

- **Established distribution network.**⁹ Scottish Pacific's primary distribution platform is through its referral network. Wholesale referrals via banks and other financial institutions account for ~12% of originations while referrals from Scottish Pacific's network of brokers, accountants, clients and insolvency practitioners account for ~55%. Direct distribution, which includes marketing initiatives via media advertising, partnerships and online, represents ~20% of originations. The balance of Scottish Pacific's distribution is accounted for by staff referrals and other referral sources.
- **High client engagement.** Scottish Pacific operates a High Touch service model whereby it has a relatively high Client and debtor interaction rate and a relatively low relationship manager to Client ratio. Scottish Pacific's risk management and underwriting procedures gather significant amounts of data from Clients and debtors which support credit and operational risk assessments and early detection of potential default risk. This High Touch service model differentiates Scottish Pacific from its competitors and leads to strong Client engagement and retention, which is supportive of its ~81% retention rate and five year average Client tenure.
- **Strong underwriting expertise.** Risk management remains a key focus and source of strategic advantage for Scottish Pacific. Scottish Pacific maintains strong underwriting performance through the separation of sales and credit functions, over collateralisation relative to funding provided (LVR of ~55% in FY17 and FY18), retention of full recourse to Clients where underlying debtors default, and diversification of Scottish Pacific's portfolio of Exposures. Ongoing monitoring and proprietary fraud risk detection measures coupled with continual improvement of debtor management processes are supportive of Scottish Pacific's low loss rates, which as a proportion of Average Exposure have decreased from 0.43% in FY16 to 0.13% in FY17 and 0.09% in FY18.¹⁰

⁹ Distribution breakdown as at 30 June 2018.

¹⁰ As at 30 June 2018. FY18 BDD expense as a % of average exposure of 0.09% has been adjusted for \$1.1 million general provision reduction.

Information about Scottish Pacific

- **Flexible funding mix.** Scottish Pacific has a range of funding sources to fund Client exposures, including asset backed funding via three limited-recourse Senior Facilities and one Mezzanine Facility, a Corporate Debt Facility and Scottish Pacific's own surplus cash. The Corporate Debt Facility is predominantly used to fund acquisitions and provide a source of contingent liquidity for the business, but has recently also been utilised to fund Client Exposures which fall outside of the eligibility requirement of the facility (e.g. new products). Scottish Pacific's funding facilities as at 31 August 2018 are:

| FACILITY | EXPIRY | TOTAL FACILITY (A\$M) | AMOUNT DRAWN (A\$M) | AVAILABLE FACILITY (A\$M) |
|--|--------|-----------------------|---------------------|---------------------------|
| Major bank 1 (AU / NZ) | 08/19 | 709 | | |
| Major bank 2 (AU / NZ) | 06/19 | 275 | | |
| Global investment bank | 05/20 | 350 | | |
| Total Senior Facilities | | 1,334 | 1,099 | 235 |
| Mezzanine Facility | 08/21 | 60 | 50 | 10 |
| Total limited resource facilities | | 1,394 | 1,149 | 245 |
| Corporate Debt | 08/21 | 120 | 70 | 50 |
| Total financial facilities | | 1,514 | 1,219 | 295 |

4.2 SCOTTISH PACIFIC BOARD AND LEADERSHIP TEAM

(A) BOARD

| NAME | POSITION |
|-----------------|--|
| Patrick Elliott | Independent Non-Executive Chairman |
| Peter Langham | Chief Executive Officer and Executive Director |
| Peter Clare | Independent Non-Executive Director |
| Katrina Onishi | Independent Non-Executive Director |
| Andrew Love | Independent Non-Executive Director |

(B) LEADERSHIP TEAM¹¹

| NAME | POSITION |
|---------------|--|
| Peter Langham | Chief Executive Officer and Executive Director |
| David Rose | Chief Financial Officer and Company Secretary |
| Steven Davies | Chief Operating Officer |
| Ben Cutler | Chief Customer Officer |
| Wayne Smith | Group Executive, Debtor Finance |
| Craig Michie | Group Executive, Specialised Finance |

¹¹ The members of the Scottish Pacific leadership team listed does not reflect all Management Shareholders.

4.3 CAPITAL STRUCTURE

(A) CAPITAL STRUCTURE

As at the date of this Scheme Booklet, Scottish Pacific had the following securities on issue:

- ordinary shares (139,191,601); and
- options (4,243,619).

(B) SUBSTANTIAL SHAREHOLDERS

Based on filings to ASX, the substantial holders of Scottish Pacific's Shares as at the Last Practicable Trading Date are:

| SUBSTANTIAL HOLDER | NUMBER OF SHARES | PERCENTAGE ¹² |
|--|------------------|--------------------------|
| Commonwealth Bank of Australia | 15,463,586 | 11.11% |
| Yarra Funds Management | 13,266,773 | 9.53% |
| Maso Capital Partners Limited and affiliates | 11,248,100 | 8.08% |
| Barclays PLC | 8,860,776 | 6.37% |
| Australiansuper Pty Ltd | 8,946,383 | 6.43% |
| JP Morgan Chase & Co | 8,776,181 | 6.31% |

Source: Scottish Pacific substantial shareholding notices.

4.4 SCOTTISH PACIFIC DIRECTORS' INTENTIONS

If the Scheme becomes Effective, the Scottish Pacific Directors (other than Peter Langham) will resign and the Scottish Pacific Board will be reconstituted in accordance with instructions from the Bidder after the Implementation Date (see Section 5.5(d)).

Accordingly, it is not possible for the Scottish Pacific Directors to provide a statement of their intentions regarding:

- the continuation of the business of Scottish Pacific Group or how Scottish Pacific Group's existing business will be conducted;
- any major changes to be made to the business of Scottish Pacific Group, including any redeployment of the fixed assets of Scottish Pacific Group; or
- the future employment of the present employees of Scottish Pacific Group,

in each case, after the Scheme is implemented.

If the Scheme is implemented, the Bidder will have 100% control of Scottish Pacific Group. The current intentions of the Bidder with respect to these matters are set out in Section 5.5.

If the Scheme is not implemented, the Scottish Pacific Directors intend to operate the business of Scottish Pacific Group in the ordinary course and in line with existing key strategies, set out in Section 4.5.

¹² Percentage based on Scottish Pacific Shares outstanding of 139,191,601 as at 24 September 2018.

Information about Scottish Pacific

4.5 STRATEGY AND INTENTION FOR SCOTTISH PACIFIC GROUP IF THE SCHEME DOES NOT PROCEED

Scottish Pacific intends to continue its current strategic plans and operate on a stand-alone basis in accordance with its publicly stated strategy of delivering growth and increasing shareholder value, including through:

- remaining focused on continuing to deliver robust organic business growth over the long term, including through Scottish Pacific's existing product portfolio and, where possible, through newly introduced products;
- entertaining the possibility of further acquisitions that fit Scottish Pacific 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; and
- continuing to invest in technology as an enabler and to make processes lower cost, more efficient whilst enhancing the customer experience.

The points above should be considered in conjunction with the general investment risks and specific risks relating to an investment in Scottish Pacific outlined in Sections 6.2 and 6.3.

4.6 HISTORICAL FINANCIAL INFORMATION

(A) BASIS OF PREPARATION

The historical information set out in this Section 4.6 has been extracted from Scottish Pacific's audited financial statements for the financial years ended 30 June 2016 to 30 June 2018. These accounts were audited by Deloitte and have been prepared in accordance with the Corporations Act and the Australian Auditing Standards.

The financial information set out in this Section 4.6 is in abbreviated form and does not contain all the information usually provided in an annual report prepared in accordance with the Corporations Act. Details of where to obtain the recent full statutory financial reports, including all notes to those accounts, are set out in Section 4.9.

(B) SCOTTISH PACIFIC CONSOLIDATED INCOME STATEMENT

Scottish Pacific's audited historical income statement for the years ended 30 June 2016 to 30 June 2018 are summarised opposite.

Income statement

For the year ended 30 June 2018

CONSOLIDATED INCOME STATEMENT

| | FY16 \$'000 | FY17 \$'000 | FY18 \$'000 |
|--|----------------|----------------|----------------|
| Revenue | | | |
| Fee income | 48,115 | 68,116 | 69,901 |
| Interest income | 47,612 | 67,878 | 78,921 |
| Interest expense | (22,504) | (35,694) | (40,214) |
| | 25,108 | 32,184 | 38,707 |
| Net revenue | 73,223 | 100,300 | 108,608 |
| Expenses | | | |
| Employee benefits expense | (27,659) | (33,793) | (37,769) |
| Office & administration expense | (12,884) | (14,691) | (16,422) |
| Professional fees | (20,709) | (11,418) | (1,318) |
| Bad & doubtful debts expense | (2,252) | (1,061) | 102 |
| Depreciation & amortisation expense | (2,998) | (6,572) | (6,676) |
| Operating profit | 6,721 | 32,765 | 46,525 |
| Borrowing expense | (6,219) | (5,256) | (5,189) |
| Profit before income tax expense | 502 | 27,509 | 41,336 |
| Income tax expense | (402) | (7,067) | (8,005) |
| Profit after income tax expense for the year attributable to the owners of Scottish Pacific Group Limited | 100 | 20,442 | 33,331 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | 25 | | |
| Foreign currency translation | 266 | (285) | 392 |
| Total comprehensive income for the year attributable to the owners of Scottish Pacific Group Limited | 391 | 20,157 | 33,723 |

| Earnings per share | Cents | Cents | Cents |
|--------------------|-------|-------|-------|
| Basic | 0.11 | 14.79 | 23.95 |
| Diluted | 0.10 | 14.79 | 23.91 |

Balance sheet

For the year ended 30 June 2018

(C) SCOTTISH PACIFIC CONSOLIDATED BALANCE SHEET

Scottish Pacific's audited historical balance sheet for the years ended 30 June 2016 to 30 June 2018 are summarised below.

| CONSOLIDATED BALANCE SHEET | | | |
|-------------------------------|------------------|------------------|------------------|
| | FY16 \$'000 | FY17 \$'000 | FY18 \$'000 |
| Assets | | | |
| Cash and cash equivalents | 16,112 | 21,833 | 14,224 |
| Restricted cash | 129,262 | 146,648 | 122,826 |
| Client receivables | 745,688 | 830,057 | 1,018,628 |
| Current tax asset | 1,142 | 1,827 | - |
| Other receivables | 6,450 | 3,074 | 2,471 |
| Deferred tax | 5,356 | 8,522 | 7,926 |
| Property, plant and equipment | 2,086 | 1,785 | 1,279 |
| Intangibles | 14,416 | 8,614 | 3,975 |
| Goodwill | 148,305 | 148,587 | 148,587 |
| Total assets | 1,068,817 | 1,170,947 | 1,319,916 |
| Liabilities | | | |
| Trade and other payables | 25,164 | 10,299 | 10,513 |
| Current tax payables | - | - | 492 |
| Provisions | 4,196 | 4,360 | 4,931 |
| Debt facilities | 812,600 | 904,415 | 1,042,049 |
| Borrowings | 63,711 | 55,079 | 55,315 |
| Total liabilities | 905,671 | 974,153 | 1,113,300 |
| Net assets | 163,146 | 196,794 | 206,616 |
| Equity | | | |
| Issued capital | 146,118 | 206,959 | 206,959 |
| Reserves | 998 | 826 | 1,677 |
| Accumulated losses | 16,030 | (10,991) | (2,020) |
| Total equity | 163,146 | 196,794 | 206,616 |

(D) SCOTTISH PACIFIC CONSOLIDATED STATEMENT OF CASH FLOWS

Scottish Pacific's audited historical statement of cash flows for the years ended 30 June 2016 to 30 June 2018 are summarised below.

Statement of cash flows

For the year ended 30 June 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

| | FY16 \$'000 | FY17 \$'000 | FY18 \$'000 |
|--|----------------|----------------|----------------|
| Cash flow from operating activities | | | |
| Receipts from customers (inclusive of GST) | 73,672 | 100,670 | 108,438 |
| Payments to suppliers and employees (inclusive of GST) | (53,096) | (73,575) | (55,890) |
| | 20,576 | 27,095 | 52,548 |
| Interest and other finance costs paid on borrowings (corporate debt) | (5,502) | (4,027) | (3,961) |
| Security deposit paid | (2,939) | 4,117 | 126 |
| Income taxes paid | (8,274) | (9,032) | (5,090) |
| Net cash from operating activities | 3,861 | 18,153 | 43,623 |
| Cash flow from investing activities | | | |
| Payments for purchase of subsidiary, net of cash acquired | (141,336) | (764) | - |
| Proceeds from / (payments to) client receivables | 41,690 | (81,744) | (187,649) |
| Payments for property, plant and equipment | (1,245) | (428) | (324) |
| Net cash used in investing activities | (100,891) | (82,936) | (187,973) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 70,880 | 58,954 | - |
| Proceeds from / (payments of) lease financing | 644 | (227) | (227) |
| Repayment of loan on acquisition of subsidiary | - | (1,414) | - |
| Repayment of mezzanine finance | (24,491) | - | - |
| Proceeds from / (repayment of) securitised debt | (8,192) | 70,654 | 161,327 |
| Proceeds from / (repayment of) corporate borrowings | 69,000 | (10,000) | - |
| Repayment of borrowing costs | (6,461) | - | - |
| Dividends paid | - | (47,463) | (24,359) |
| Net cash from financing activities | 101,380 | 70,504 | 136,741 |
| Net increase (decrease) in cash and cash equivalents | 4,350 | 5,721 | (7,609) |
| Cash and cash equivalents at the beginning of the financial year | 11,762 | 16,112 | 21,833 |
| Cash and cash equivalents at the end of the financial year | 16,112 | 21,833 | 14,224 |

Information about scottish pacific

4.7 MATERIAL CHANGES TO THE FINANCIAL POSITION OF SCOTTISH PACIFIC SINCE 30 JUNE 2018

In August 2018, Scottish Pacific extended its Corporate Debt Facilities with existing providers, adding \$50 million of facility and accordingly, increasing its total facility limit to \$120 million (as noted in Section 4.1(c)). The purpose of this additional funding was to provide sufficient working capital to support the following aspects of Scottish Pacific's business:

- Junior Note obligations for exposure growth in the limited recourse warehouse funds;
- the funding of growth in Scottish Pacific's new Specialised Finance product offerings until such time as these products can be funded from within the limited recourse warehouse funds; and
- to ensure the Scottish Pacific Board's mandated cash floor limits were observed throughout September 2018 as the FY18 final dividend was paid.

Apart from the increase in the limits of its Corporate Debt Facilities as noted above, the financial position of Scottish Pacific has not materially changed since 30 June 2018, being the date of Scottish Pacific's FY2018 Financial Results.

4.8 FY2019 GUIDANCE

The Scottish Pacific Board is confident of Scottish Pacific's ability to continue to deliver returns to Scottish Pacific Shareholders into the future.

Scottish Pacific reaffirms the statements made by its leadership team that Scottish Pacific's business is expected to continue to deliver low double digit profit growth at the NPATA level, with the year-on-year increase in Client exposure and Net Revenue witnessed at the start of FY19 enabling the company to improve on its FY18 results.

Scottish Pacific also remains confident that:

- it will maintain strong control over its cost base, despite making targeted investments in people and technology, with a view to increasing efficiency in on-boarding new Clients and managing the existing Client base; and
- its pipeline is solid with growth being experienced in leads in new product categories, including Asset Finance, Selective Invoice Finance, Bad Debt Protection, Trade Finance and Progress Claim Finance.

4.9 PUBLICLY AVAILABLE INFORMATION ABOUT SCOTTISH PACIFIC

Scottish Pacific is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, Scottish Pacific is subject to the ASX Listing Rules which require (subject to some exceptions) continuous disclosure of any information Scottish Pacific has that a reasonable person would expect to have a material effect on the price or value of Scottish Pacific Shares.

The ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to the ASX by Scottish Pacific is available on the ASX's website at www.asx.com.au.

In addition, Scottish Pacific is required to lodge various documents with ASIC. Copies of most documents lodged with ASIC by Scottish Pacific may be obtained from ASIC Connect or an information broker.

Scottish Pacific Shareholders may obtain a copy of:

- Scottish Pacific's Financial Report for the year ended 30 June 2018 (being the most recent financial report lodged with the ASX before registration of this Scheme Booklet with ASIC); and
- any announcements given to the ASX by Scottish Pacific after the lodgement by Scottish Pacific of the Financial Report for the year ended 30 June 2018 and before the date of this Scheme Booklet,

on ASX's website at www.asx.com.au.

A list of announcements made by Scottish Pacific to the ASX from the time that Scottish Pacific announced that it and the Bidder had entered into the Original Scheme Implementation Agreement on Monday, 24 September 2018 to the Last Practicable Trading Date as below.¹³

| Announcement | Date |
|--|-------------------|
| Scheme Implementation Agreement – Affinity Equity Partners | 24 September 2018 |
| Appendix 3B – Issue and Lapse of Options | 24 September 2018 |
| Date of AGM | 5 October 2018 |
| Annual Report to Shareholders | 23 October 2018 |

A substantial amount of information about Scottish Pacific, including financial information and releases to the ASX, is available in electronic form on Scottish Pacific’s website at <https://investors.scottishpacific.com/investors/>.

¹³ This excludes announcements relating to substantial holding notices.



5. Information about the Bidder, Holdco and Affinity

5.1 INTRODUCTION

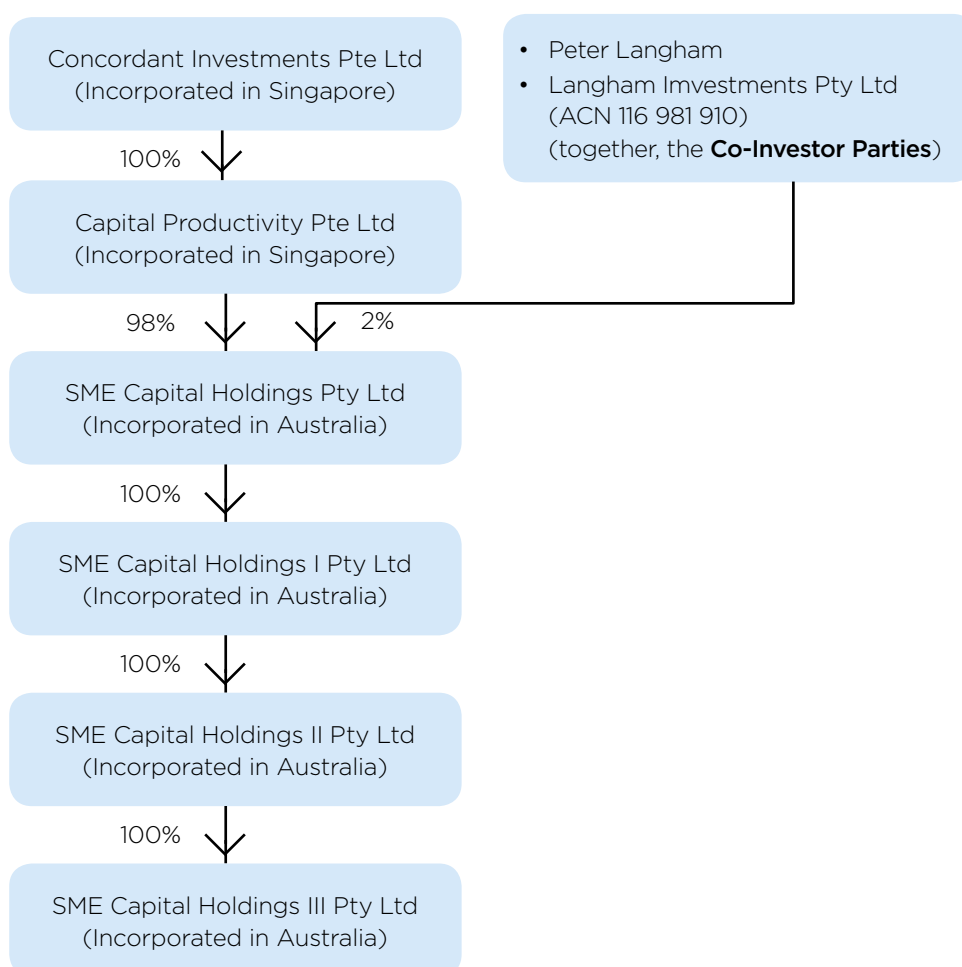
This Section 5.1 forms part of the Bidder Group Information and has been prepared by the Bidder. The Bidder is solely responsible for the Bidder Group Information, except to the extent that Scottish Pacific has provided the Bidder with information for the purposes of its preparing the Bidder Group Information. None of Scottish Pacific nor any of its Subsidiaries, shareholders, affiliates, directors, officers or advisers assume any responsibility for the accuracy or completeness of the Bidder Group Information.

This Section 5.1 includes information on the Bidder's funding arrangements that have been made to provide the Scheme Consideration and information as to the Bidder's intentions, views, and opinions in relation to Scottish Pacific. These intentions, views and opinions have been formed on the basis of facts and information concerning Scottish Pacific which are known to the Bidder, the general business environment and the circumstances affecting the business of Scottish Pacific, in each case, as at the date of this Scheme Booklet.

5.2 OVERVIEW OF BIDDER, HOLDCO AND AFFINITY

(A) OWNERSHIP STRUCTURE

Concordant Investments Pte Ltd (**Concordant**), a Singaporean private company, indirectly wholly owns, together with the Co-Investor Parties, SME Capital Holdings Pty Ltd (ACN 628 947 544) (**Holdco**), an Australian incorporated proprietary company. Holdco wholly owns the Bidder, SME Capital Investments III Pty Ltd (ACN 628 950 514), an Australian incorporated proprietary company, through various other wholly owned entities as illustrated in the group structure diagram below.¹⁶



¹⁶ Group structure as of the date of this Scheme Booklet.

Information about the Bidder, Holdco and Affinity

Concordant is ultimately owned by three limited partnerships which comprise Affinity Asia Pacific Fund IV (**Affinity Fund IV**), which are advised by Affinity Equity Partners Limited (together with its related advisory entities, **Affinity**). Affinity is one of the largest independent private equity firms in the Asia Pacific region and has advised and managed approximately US\$14 billion of funds and assets across its five funds since inception. SME Capital Investments I Pty Ltd and SME Capital Investments II Pty Ltd hold no assets other than the shares indicated in the corporate structure diagram above.

(B) OVERVIEW OF HOLDCO

Holdco is a special purpose company that was incorporated for the purpose of indirectly holding all the shares in the Bidder and issuing Holdco Shares to Management Shareholders who validly elect the Scrip Option.

Holdco is an unlisted Australian proprietary company that has not commenced trading or conducted business and does not own any assets and or liabilities other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

The affairs of Holdco are regulated under the Holdco Constitution and the Investment Deed. Full copies of the Holdco Constitution and the Investment Deed have been or will be delivered to those Scottish Pacific Shareholders entitled to make an election for the Scrip Option.

Share capital structure

As at the date of this Scheme Booklet, Holdco has issued 100 ordinary shares which are owned by Capital Productivity Pte Ltd (as to 98 shares) and the Co-Investor Parties (as to 2 shares).

Based on information provided by Scottish Pacific to Holdco as at the date of this Scheme Booklet that Management Shareholders entitled to make an election for the Scrip Option collectively hold 5,283,459 shares in Scottish Pacific, and assuming no change in those holdings, if the Scheme is implemented and all those Management Shareholders validly elect the Scrip Option, those Management Shareholders and the Co-Investor Parties will collectively own at least 2% of Holdco and Concordant will indirectly own no more than 98% of Holdco.

(C) OVERVIEW OF THE BIDDER

The Bidder is a special purpose company that was incorporated for the purpose of holding all the shares in Scottish Pacific post implementation of the Scheme. The Bidder is an unlisted Australian proprietary company that has not commenced trading or conducted business and does not own any assets and or liabilities other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

As at the date of this Scheme Booklet, all the shares in the Bidder are owned indirectly by Holdco. If the Scheme is implemented, all the shares in the Bidder will remain indirectly owned by Holdco.

The affairs of the Bidder are regulated under the Investment Deed.

(D) OVERVIEW OF AFFINITY

Affinity is one of the largest independent private equity firms in the Asia Pacific region and has advised and managed approximately US\$14 billion of funds and assets across its five funds since its inception. Affinity recently completed raising US\$6 billion in new capital for Affinity Asia Pacific Fund V. Affinity was established as a standalone entity in 2004, following the separation of its operations from UBS AG. Prior to 2004, the operations were part of the private equity operations of UBS Capital Asia Pacific. Since inception, Affinity has completed over 40 transactions in ten countries with an aggregate transaction value of approximately US\$15 billion.

Affinity has a substantial investment track record in the Asia Pacific region over the past 5 years, through select investments such as:

| COMPANY | COUNTRY | DESCRIPTION |
|--|-----------|---|
| Burger King Korea | Korea | Investment in the third largest burger service restaurant chain in Korea |
| Burger King Japan | Japan | Investment in one of the leading burger service restaurant chains in Japan |
| Comfort Healthcare | China | Investment in one of the leading mid-to-high end private hospital groups in Shanghai |
| Hyundai Card | Korea | Investment in the third largest credit card company in Korea |
| Island Hospital | Malaysia | Investment in the #1 medical tourist hospital in Malaysia |
| Jinmailang Beverage Corporation | China | Investment in one of the leading beverage companies in China |
| Leong Hup International | Malaysia | Investment in one of ASEAN's largest feed and poultry producers |
| Lock & Lock | Korea | Investment in one of the leading pan-Asian branded kitchenware manufacturers |
| Loen Entertainment | Korea | Leverage buyout of the largest vertically-integrated music company in Korea |
| MedicalDirector | Australia | Investment in Australia's leading provider of clinical and practice management software |
| Sido Muncul | Indonesia | Investment in one of of Indonesia's leading pharmaceutical and healthcare companies |
| TEG | Australia | Investment in Australia and New Zealand's largest ticketing and vertically integrated live events company |
| Trimco International Holdings | Hong Kong | Investment in leading manufacturer of garment labels |
| The Basic House | China | Investment in the second largest Korean fashion apparel brand in China |
| Velocity Frequent Flyer | Australia | Investment in Virgin Australia's Velocity frequent flyer program |

(E) DIRECTORS OF THE BIDDER AND HOLDCO

The directors of the Bidder and Holdco are:

- Kok Yew Tang;
- Robin Eng Jin Ong; and
- Brett Sutton.

Information about the Bidder, Holdco and Affinity

The biographies of the relevant directors are set out below.

Kok Yew Tang

Mr Tang is the Founding Chairman and Managing Partner of Affinity Equity Partners following its spin-off from UBS Capital Asia Pacific in 2004. Prior to that, he was the Asia-Pacific Chairman of UBS Capital (the private equity arm of UBS) since 1999. Before he joined UBS Capital, he was the Chief Executive for Investment Banking, East Asia at Union Bank of Switzerland in 1995. Following the merger of Union Bank of Switzerland and Swiss Bank Corporation to form UBS, Mr Tang became Chief Executive, Hong Kong of UBS Group and Asia Regional Head of Investment Banking for UBS Investment Bank. Mr Tang also served a number of senior roles over 20 years in Banque Indosuez Group and Chase Manhattan Bank in Hong Kong and Malaysia. Mr Tang holds a Bachelor of Economics (Accounting) degree with First Class Honours from the University of Malaya.

Robin Eng Jin Ong

Mr Ong is the Chief Financial Officer of Affinity and joined in 2013. Prior to joining Affinity Equity Partners, he spent 18 years with the UBS Group, holding several positions including, for seven years, the position of MD and CFO for South East Asia, with responsibilities for their offices in Singapore, Indonesia, Malaysia, Thailand and Philippines. Mr Ong started his professional career as an auditor at KPMG Singapore. He graduated from the National University of Singapore with a Bachelor of Accountancy degree and obtained his MBA at City University Business School in London.

Brett Sutton

Mr Sutton is a Partner at Affinity, which he joined in 2004, and is the Head of Affinity Equity Partners Australia and New Zealand. Through Affinity's Australian investments, Mr Sutton is currently a director of Live Entertainment Holdings Pty Ltd, Velocity Frequent Flyer Pty Ltd and Clinical Technology Holdings Pty Ltd (MedicalDirector). Prior to Affinity, Mr Sutton was in the investment banking division of UBS in Australia, and began his career with Ernst & Young, where he played a pivotal role on a wide range of M&A advisory and business due diligence transactions in the banking and financial services sectors, based in Singapore, New York and Australia. Mr Sutton holds a Bachelor of Commerce degree with a double major in Accounting and Finance from Curtin University of Technology, and is a qualified Chartered Accountant in Australia.

5.3 FUNDING OF THE SCHEME CONSIDERATION

This Section 5.3 outlines how the Bidder intends to fund the Scheme Consideration.

(A) CASH SCHEME CONSIDERATION

The Bidder has entered into a legally binding equity commitment letter with Concordant dated 24 September 2018 (**Equity Commitment Letter**). Under the Equity Commitment Letter, Concordant has agreed that, subject to the Scheme becoming Effective, Concordant will fund the Bidder no later than the second Business Day prior to the Implementation Date, by way of direct or indirect capital contributions, the aggregate amount of \$612,443,044.40, to be used by the Bidder for the purpose of paying, and to the extent necessary to pay, the maximum Cash Scheme Consideration. The Scheme is not subject to debt financing arrangements.

(B) ISSUE OF HOLDCO SHARES UNDER SCRIP OPTION

Based on information provided by Scottish Pacific to Holdco as at the date of this Scheme Booklet that Management Shareholders entitled to make an election for the Scrip Option collectively hold 5,283,459 shares in Scottish Pacific, and assuming no change in those holdings, the maximum number of Holdco Shares that may be issued as part of the Scheme Consideration is 2,641,729 Holdco Shares. Holdco and the Bidder have each entered into the Deed Poll to covenant in favour of the Scheme Shareholders to perform its respective obligations in relation to the Scheme. One such obligation is to provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with the Scheme, including to issue all Holdco Shares required to be issued in respect of valid elections under the Scrip Option.

(C) CONCLUSION

On the basis of the arrangements described above, the Bidder believes that it has reasonable grounds for holding the view, and holds the view, that the Bidder will be able to satisfy its obligation to provide the Scheme Consideration as and when it is due under the terms of the Scheme.

5.4 HOLDCO SHARES TO BE ISSUED TO MANAGEMENT SHAREHOLDERS ELECTING THE SCRIP OPTION

Holdco Shares are subject to the Holdco Constitution and Investment Deed, copies of which have been or will be delivered to Management Shareholders entitled to make an election for the Scrip Option.

Management Shareholders entitled to make an election for the Scrip Option should seek professional guidance from a solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to elect to receive the Scrip Option, including in relation to the nature of the Holdco Shares, the risk factors relating to holding Holdco Shares in light of their own personal circumstances and the rights and obligations under both the Holdco Constitution and Investment Deed if they make an election for the Scrip Option.

Risk factors that apply to an investment in Holdco post implementation of the Scheme are materially different from those that apply to the Management Shareholders' existing investment in Scottish Pacific. For instance, certain risk factors applying to an investment in Holdco post implementation of the Scheme will include:

- Holdco is an unlisted proprietary company and there will be no public market for the trading of Holdco Shares, nor is there expected to be any such market in the near future. The ability to dispose of Holdco Shares is significantly restricted under the Investment Deed which will result in Holdco Shares being substantially illiquid and may also affect the value of Holdco Shares;
- as the ASX Listing Rules will not apply to Holdco, investor protections currently available to Scottish Pacific Shareholders in respect of their Scottish Pacific Shares under the ASX Listing Rules will not apply to the Management Shareholders who elect the Scrip Option. For example, Holdco is not subject to any requirement to disclose material price sensitive information to its shareholders or ensure classes of security are appropriate and equitable (including with respect to voting rights of holders of Holdco Shares and any preference shares issued by Holdco). Similarly, except as required under the Investment Deed, there are no restrictions on Holdco issuing new securities (which could result in Management Shareholders being more easily diluted) or making significant changes to the nature or scale of Holdco activities may be undertaken without shareholder approval;
- if all Management Shareholders validly elect the Scrip Option, those Management Shareholders and the Co-Investor Parties will collectively own at least 2% of Holdco. As such, Management Shareholders will be subject to risks that are inherent in minority shareholdings with no substantial influence over a majority of decisions affecting Holdco, both at the board of Holdco or at a general meeting of Holdco. Similarly, Holdco is not required to hold an annual general meeting of members post implementation of the Scheme and Management Shareholders may receive significantly less information and reports about Holdco and/or Scottish Pacific than Management Shareholders currently receive;
- subject to the terms of the Investment Deed, future distributions will be determined by the Holdco board. There is no guarantee that future distributions will be paid or, if they are paid, the amount of such distributions;
- Management Shareholders may be compelled to transfer Holdco Shares under various provisions in the Investment Deed. For example, under certain "drag along" provisions, Concordant may require other Holdco shareholders to transfer their Holdco Shares and under certain "compulsory transfer" provisions, Concordant may require other Holdco shareholders to transfer, cancel or have bought back their Holdco Shares in certain circumstances;
- except as required under the Investment Deed, there are no restrictions on persons in a position of influence such as related parties, or substantial holders, from entering into "related party" transactions with Holdco. Such transactions may not require shareholder approval;
- there is no guarantee that either the Bidder or Holdco will achieve its stated objectives or any of its statements of current or future intent as described in Section 5.5, or that any dividends or distributions will be paid to Holdco shareholders post implementation of the Scheme; and

Information about the Bidder, Holdco and Affinity

- consistent with usual private equity practice, Affinity may seek to exit their investment in Holdco at some time in the future subject to then prevailing market conditions, the businesses performance and other factors which may be considered relevant at the time. There is no guarantee that Management Shareholders will be able to achieve an exit in respect of their Holdco Shares if a decision for exit is not made by Affinity. Conversely, there is no guarantee that Management Shareholders will want to exit their investment in Holdco Shares at the same time as the decision for exit is made by Affinity. Holdco shareholders may not agree with the exit strategy adopted by Affinity or receive the price and return on investment they expect.

This is a summary of certain risks associated with an investment in Holdco post implementation of the Scheme, but is not intended to be, and is not, an exhaustive list of the risks associated with such an investment. Management Shareholders entitled to make an election for the Scrip Option should read the Scheme Booklet in its entirety, and seek professional guidance from a solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to elect to receive the Scrip Option.

5.5 POST-ACQUISITION INTENTIONS OF THE BIDDER

The Bidder believes that its access to Affinity's experience and operational expertise puts the Bidder in a strong position to be able to support Scottish Pacific's management to grow and develop Scottish Pacific's business.

If the Scheme is implemented, the Bidder will become holder of all Scottish Pacific Shares and, accordingly, Scottish Pacific will become a wholly-owned subsidiary of the Bidder.

This Section 5.5 sets out the present intentions of the Bidder in relation to the continuation of Scottish Pacific's business, any major changes to the business of Scottish Pacific, the future employment of the present employees of Scottish Pacific and any redeployment of the fixed assets in Scottish Pacific, in each case if the Scheme is implemented.

The intentions of the Bidder are the same as the intentions of Holdco. The statements of intention made in this Section 5.5 are statements of present intention only and are based on the information concerning Scottish Pacific (including certain non-public information made available by Scottish Pacific to the Bidder prior to entry into the Original Scheme Implementation Agreement) and the general business environment which is known to the Bidder at the time of preparation of this Scheme Booklet. The Bidder does not currently have full knowledge of all material information, facts and circumstances that are necessary to assess all of the operational, commercial, taxation and financial implications of its current intentions. Final decisions on these matters will only be made by the Bidder after having conducted a detailed review of Scottish Pacific's business after the acquisition has been finalised. Accordingly, the statements set out in this Section 5.5 are statements of current intention only, which may change as new information becomes available or as circumstances change.

(A) GENERAL REVIEW OF BUSINESS

If the Scheme is implemented, the Bidder intends to continue the business of Scottish Pacific largely in its current form. The Bidder intends to work with Scottish Pacific's leadership team to optimise the prospects and operating performance of the business, including new potential growth adjacencies.

In order to achieve these outcomes, the Bidder intends to undertake a detailed review of Scottish Pacific's business to verify (or to identify any deviation from) the Bidder's understanding of the information, facts and circumstances concerning Scottish Pacific's assets, strategies and operations as at the date of this Scheme Booklet. The Bidder will then work with Scottish Pacific's leadership team and its consultants to determine how to further develop Scottish Pacific's business in order to maximise its operating performance.

In the course of the review, the Bidder intends to focus on the opportunity to continue Scottish Pacific's strong track record of investing in people, processes and systems across a number of key specific areas, including improving underlying business performance and sustainability, further diversifying its product offering and opportunities for growth through acquisitions.

(B) SCOTTISH PACIFIC TO BE DELISTED

If the Scheme is implemented, the Bidder will arrange for an application to be made to ASX for Scottish Pacific to be removed from ASX's official list with effect from, or shortly after, the Implementation Date and subsequently converted into a proprietary company limited by shares.

(C) HEAD OFFICE

If the Scheme is implemented, it is the intention of the Bidder that Scottish Pacific's head office remain located in Sydney, New South Wales.

(D) SCOTTISH PACIFIC DIRECTORS

If the Scheme is implemented, the Bidder intends to replace all members of the Scottish Pacific Board, apart from Peter Langham, with nominees of the Bidder.

The identity of the Bidder's nominees has not yet been determined but the Bidder expects that such nominees may include some of the directors of the Bidder.

(E) EMPLOYEES AND INCENTIVE PLANS

The Bidder acknowledges there is significant value, knowledge and expertise in the existing staff of Scottish Pacific. Accordingly, subject to the operational and strategic review described in this Section 5.5, the Bidder intends to retain the services of Scottish Pacific's management in the ordinary course. Subject to the operational and strategic review outlined in this Section 5.4, the Bidder will endeavour to minimise the disruption (if any) to Scottish Pacific and its employees.

Overall, the key operational responsibilities held by Scottish Pacific's management are expected to be largely unchanged, however final decisions regarding the structure of Scottish Pacific's business (including in respect of less relevant corporate and administrative functions applicable to a private company) will be made following implementation of the Scheme.

Scottish Pacific Options are currently on issue to certain Scottish Pacific employees as part of the LTI Plan. Prior to the Scheme being implemented, those Scottish Pacific Options will be cancelled in exchange for cash payments from Scottish Pacific equivalent to the Scheme Consideration net of the relevant exercise price (except for 300,242 Scottish Pacific Options which will be cancelled for nil consideration as outlined in Sections 3.10 and 8.4).

Following implementation of the Scheme, Holdco will consider the establishment of a customary equity incentive plan for eligible staff of Scottish Pacific.

5.6 OTHER INFORMATION

(A) INTEREST IN SCOTTISH PACIFIC SHARES

As at the date of this Scheme Booklet, the Bidder and its directors have zero Relevant Interest in Scottish Pacific Shares.

(B) NO DEALINGS IN SCOTTISH PACIFIC SHARES IN THE PREVIOUS FOUR MONTHS

During the period of four months ending on the date of this Scheme Booklet, other than pursuant to the Scheme Implementation Agreement, Scheme or Deed Poll, neither the Bidder nor any of its associates, to the best of its knowledge, has agreed to provide consideration for any Scottish Pacific Shares under any purchase or agreement.

(C) BENEFITS TO SCOTTISH PACIFIC SHAREHOLDERS

During the four months before the date of this Scheme Booklet, none of the Bidder or, to the best of its knowledge, any of its associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- vote in favour of the Scheme; or
- dispose of their Scottish Pacific Shares,

where the benefit was not offered to all Scottish Pacific Shareholders.

Information about the Bidder, Holdco and Affinity

(D) BENEFITS TO CURRENT SCOTTISH PACIFIC DIRECTORS

The Bidder will not make payment or give any benefit to any current member of the Scottish Pacific Board as compensation for loss of office with, or as consideration for or in connection with his or her retirement from, the Scottish Pacific Board (as the case may be) if the Scheme is implemented and the Scottish Pacific Board is accordingly reconstituted.

(E) OTHER MATERIAL INFORMATION

Except as set out in this Scheme Booklet, there is no information material to the making of a decision by Scottish Pacific Shareholders whether or not to vote in favour of the Scheme that is within the knowledge of the directors of the Bidder at the date of this Scheme Booklet that has not previously been disclosed to Scottish Pacific Shareholders.

5.7 CONSENTS

Each of Concordant, Holdco and the Bidder has given, and has not withdrawn before the time of registration of this Scheme Booklet with ASIC, its consent to be named in this Scheme Booklet in the form and context in which it is named and, in the case of the Bidder, its consent to the inclusion of the Bidder Group Information, on the basis set out in the Section entitled “Important Notices” and as set out in the Scheme Implementation Agreement.

6. Risks

6.1 INTRODUCTION

In considering the Scheme, Scottish Pacific Shareholders should be aware that there are a number of risk factors, both general and specific, associated with the Scheme.

This Section 6 outlines:

- general investment risks (see Section 6.2);
- risks specific to an investment in Scottish Pacific (see Section 6.3); and
- risks which may prevent the Scheme from becoming Effective or being implemented (see Section 6.4).

If the Scheme is implemented, you will receive the Scheme Consideration, will cease to be a Scottish Pacific Shareholder and will also no longer be exposed to the risks set out below. If the Scheme does not proceed, you will continue to hold your Scottish Pacific Shares and continue to be exposed to risks associated with that investment.

The risks included in this Section 6 are general in nature only and do not take into account your individual investment objectives, financial circumstances and taxation position. In making your decision to vote on the relevant Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances.

The outline of risks in this Section 6 is a summary only and should not be considered exhaustive. It does not purport to list every risk that may be associated with an investment in Scottish Pacific now or in the future, and the occurrence of some of the risks described below are partially and completely outside the control of Scottish Pacific, Scottish Pacific Directors and leadership team.

The selection of risks included in this Section 6 has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk on Scottish Pacific's business or an investment in Scottish Pacific Shares if it did occur. The assessment is based on Scottish Pacific Directors' knowledge as at the date of this Scheme Booklet, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge. Any risk or a combination of these risks, and any other risks that may emerge, may have a material adverse effect on the business, financial condition, financial performance, results of operations and cash flows of Scottish Pacific or the price of Scottish Pacific Shares. There is also no guarantee that Scottish Pacific will achieve its stated objectives or that any forward looking statements or forecasts will eventuate.

If you do not understand any part of this Scheme Booklet or are in any doubt as to your decision to vote on the relevant Scheme Resolution, it is recommended that you seek professional guidance from your legal, financial, taxation or other professional adviser before deciding whether to vote in favour or against the Scheme Resolution.

6.2 GENERAL INVESTMENT RISKS

(A) FALL IN SCOTTISH PACIFIC SHARE PRICE

If the Scheme is not implemented, Scottish Pacific Shares will remain quoted on the ASX and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions. This may result in fluctuations in the Scottish Pacific Share price that cannot be explained by the operations and activities of Scottish Pacific.

If the Scheme is not implemented, the price at which Scottish Pacific Shares trade may fall.

Risks

(B) GENERAL BUSINESS RISK

The future viability and profitability of Scottish Pacific is dependent on a number of other business risks, which are applicable to all companies including (but not limited to) the following:

- financial failure or default by a party to any contract which Scottish Pacific is, or may become, a party;
- industrial disputes;
- litigation;
- natural and man-made disasters, including earthquakes, tsunamis and flooding;
- acts of terrorism or an outbreak of international hostility; and
- changes in economic conditions.

(C) LIQUIDITY AND REALISATION RISK

Scottish Pacific Shares are only listed on the ASX and not on any other securities market. As such, there can be no guarantee that an active market in the Scottish Pacific Shares will continue, or that the market price of Scottish Pacific Shares will increase. If a market is not sustained, it may be difficult for investors to sell their Scottish Pacific Shares, and the market price may be more volatile because of a low volume of trading.

(D) GOVERNMENT, POLICY AND REGULATION

Changes in relevant taxes (including GST), legal and administrative and government policies in jurisdictions in which Scottish Pacific carries on its business, including Australia, New Zealand and the United Kingdom, may impact the performance of Scottish Pacific. In addition, any change in tax arrangements between Australia, New Zealand, the United Kingdom and other jurisdictions in which Scottish Pacific carries on its business could, again, have an adverse impact on profit margins and the level of franking credits and imputation credits available to frank and impute any future dividends.

(E) SHAREHOLDER DILUTION

In the future, should the Scheme not proceed, Scottish Pacific may elect to issue further Scottish Pacific Shares or other securities. While Scottish Pacific will be subject to the constraints of the ASX Listing Rules regarding the issue of Scottish Pacific Shares and other securities, Scottish Pacific Shareholders may be diluted as a result of such issues of Scottish Pacific Shares and other securities.

(F) DIVIDENDS MAY NOT BE FRANKED

There can be no guarantee that dividends paid by Scottish Pacific will be franked. To the extent that Scottish Pacific pays any dividends, Scottish Pacific Shareholders should be aware that Scottish Pacific may not have sufficient franking credits to frank dividends (noting that Scottish Pacific does not have sufficient franking credits until FY20), or the franking system may be subject to review or reform.

6.3 RISKS SPECIFIC TO AN INVESTMENT IN SCOTTISH PACIFIC

(A) MAJOR FRAUD EVENTS

Scottish Pacific is exposed to the risk that counterparties with which it deals, including its clients and debtors, may act fraudulently. Potential fraudulent behaviour could include its clients and/or debtors conspiring to induce Scottish Pacific to advance funds against false invoices, advance funds to a non-existent or insolvent entity, or advance funds against invoices that are owned by (or required to be paid to) a third party. Scottish Pacific relies on its internal controls to detect fraud. Any failure of these internal controls to detect fraud could result in credit losses, damage to Scottish Pacific's reputation and its ability to raise funding, which in turn could materially adversely affect Scottish Pacific's business, operations and financial performance. Detail of Scottish Pacific's underwriting expertise and historical credit losses are set out in Section 4.1(c).

(B) DEBTORS AND CLIENTS UNABLE TO MEET THEIR FINANCIAL OBLIGATIONS

Scottish Pacific is exposed to the risk that its clients and debtors do not meet their financial obligations or become insolvent. A failure by Scottish Pacific to adequately assess and manage counterparty credit risk may result in credit losses, potentially resulting in a material adverse effect on Scottish Pacific's business, operating and financial performance, including decreased operating cash flows, significant impairment expenses, an increase in funding costs, and reduced access to funding. To mitigate the risk of loss for debtor default, Scottish Pacific retains the right to full recourse against the Client for any failure by a debtor. To mitigate the risk of loss for Client default, Scottish Pacific will take collateral above the pool of assigned resources. For example, Scottish Pacific's average LVR against assigned receivables is 55%.

(C) FUNDING ARRANGEMENTS

Scottish Pacific's funding platform comprises a mix of Senior Facilities, a Mezzanine Facility, Corporate Debt Facilities, and the use of Scottish Pacific's own cash. Scottish Pacific depends on each of these sources to provide Client Funding Amounts to its clients. A loss of, or adverse impact on or in relation to, one or more of Scottish Pacific's funding sources could limit Scottish Pacific's ability to continue to fund its existing business, to write new business or, without access to alternative funding sources, to write new business on favourable terms. Each of these outcomes could have an adverse effect on Scottish Pacific's financial performance. Factors which may impact on Scottish Pacific's Senior Facilities, Corporate Debt Facilities and Mezzanine Facility are detailed below.

Interest rates

The interest payable under the majority of the Senior Facilities, the Mezzanine Facility and the Corporate Debt Facilities are linked to BBSW / BBSY – variable floating interest rate benchmarks. It is possible that the interest rate charged may increase in the future, impacting the availability or size of any Net Margin earned by Scottish Pacific on receivables funded through its Funding Vehicles and Scottish Pacific's cost of doing business. In the event that Scottish Pacific is unable to pass on increased costs to its Clients, or do so in a timely manner, this may adversely impact its operating performance.

Financial and non-financial covenants

Scottish Pacific has various financial and non-financial covenants under its Senior Facilities, Mezzanine Facility and Corporate Debt Facilities which could limit its future financial flexibility. If Scottish Pacific's operating results deteriorate, including incurring significant losses, Scottish Pacific may be unable to meet the covenants governing its indebtedness, which may require Scottish Pacific to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, or to reduce debt or raise additional equity. If a breach of covenant were to occur, there is no assurance that the financiers in respect of the Senior Facilities, Mezzanine Facility or Corporate Debt Facilities would consent to an amendment or waiver, or that those financiers would not exercise their enforcement rights, including requiring immediate repayment and cancellation of the Senior Facilities, Mezzanine Facility or Corporate Debt Facilities. Such events could limit Scottish Pacific's flexibility in planning for, or reacting to, downturns in its business or otherwise materially adversely affect Scottish Pacific's business, operating and financial performance, and require new funding to be raised or a potential need to raise equity.

Deterioration in credit quality

There is a risk that a deterioration in the credit quality of the receivables portfolio sold to a Funding Vehicle could potentially trigger an event of default or a restriction on funding under the relevant Senior Facility or the Mezzanine Facility. This may restrict or prevent Scottish Pacific from accessing funds from the relevant Funding Vehicle or Mezzanine Facility. A 'lock-up' or 'turbo' amortisation scenario may also restrict Scottish Pacific's ability to access residual income from a Funding Vehicle or the Mezzanine Vehicle and this may adversely impact its earnings.

Risks

Scottish Pacific's ability to receive funds from the sale of receivables to Funding Vehicles is also subject to conditions. Failure to meet these conditions could limit Scottish Pacific's ability to provide Client Funding Amounts to new and existing Clients. Some of the conditions could be breached by action taken by Scottish Pacific (e.g. breach of its obligations under the Senior Facilities) or could be caused by events outside of Scottish Pacific's control, including the deterioration in the credit quality of the receivables sold to a Funding Vehicle.

Renewal and terms

There is a risk that Scottish Pacific may not be able to renew its Senior Facilities, Corporate Debt Facilities or Mezzanine Facility when they fall due for renewal. This could materially impact Scottish Pacific's ability to continue to fund its existing business, to fund new business or, without access to alternative funding sources, to write new business on favourable terms, potentially materially adversely affecting Scottish Pacific's financial performance.

Unless Scottish Pacific's Senior Facilities, Corporate Debt Facilities or Mezzanine Facility are extended or renewed when they fall due for renewal, the financiers under these facilities may demand repayment of, and cancel, the relevant facilities, limit the amount of funding they provide or negotiate to change the terms. Financiers also have the ability in certain circumstances to require changes to the terms of Senior Facilities prior to contractual maturity or in connection with the period renewal process. As a result, Scottish Pacific is subject to a risk that it is unable to refinance the drawn balance of the its Senior Facilities, Corporate Debt Facilities or Mezzanine Facility upon acceleration or maturity, or if it is able to do so, it may face greater funding costs or be unable to obtain sufficient funds to fund its growth activities which could affect its operating and financial performance.

There is also risk that general market conditions may restrict Scottish Pacific from expanding its funding capability if it cannot negotiate increased limits to existing Senior Facilities, Corporate Debt Facilities or the Mezzanine Facility or secure new senior facilities, corporate debt facilities or mezzanine facilities.

Scottish Pacific's obligations to provide "first loss" capital

Whilst the Senior Facilities and the Mezzanine Facility are limited recourse to the Scottish Pacific Group, the terms of the Senior Facilities and the Mezzanine Facility may require members of the Scottish Pacific to expend cash in relation to the Senior Facilities and the Mezzanine Facility on an ongoing basis. These requirements include the obligation to subscribe for additional Junior Notes in circumstances such as where a Funding Vehicle or the Mezzanine Vehicle incurs losses. This may require members of the Scottish Pacific Group to incur further expenditure and may affect its operating and financial performance.

As providers of "first loss" funding to the Funding Vehicles and the Mezzanine Vehicle, members of the Scottish Pacific Group are first in line to lose their investment if there is a loss experienced by, or other shortfall in funds available to, the Funding Vehicles or the Mezzanine Vehicle. This may impact the availability or size of any Net Revenue earned by Scottish Pacific on receivables funded through its Funding Vehicles and Scottish Pacific's cost of doing business. In the event that Scottish Pacific is unable to pass on increased costs to its Clients, or do so in a timely manner, this may adversely impact its operating performance, as well as a decrease in the value of the Scottish Pacific Group's investments in notes and units issued by the Funding Vehicles and the Mezzanine Vehicle.

(D) REGULATORY CHANGES FOR FINANCIERS

Parties which advance funding that Scottish Pacific relies upon to operate its business may be subject to regulatory changes in Australia or elsewhere which affect their ability to advance funding, increase the cost of funding, or increase the amount of capital they need to hold to advance that funding.

(E) SYSTEMS FAILURE

Scottish Pacific has established processes to ensure that it obtains ownership of receivables assigned to it and priority over those receivables over other third parties (including other creditors of Scottish Pacific and its Clients). These processes rely in part on searches and information provided by third parties, and in part on Scottish Pacific employees taking appropriate actions and following internal processes and procedures (such as ensuring the Client enters into appropriate agreements and registering Scottish Pacific's interest in the assets of the Client). It is possible that inaccurate information provided by third parties, human error by Scottish Pacific staff, or failure to follow procedures by Scottish Pacific staff, may result in Scottish Pacific not obtaining ownership of receivables that are purportedly assigned to it, or losing priority to receivables to other third parties. This may expose Scottish Pacific to financial loss if it is unable to recover from the Client (or debtors) the amount paid to the Client in respect of those receivables.

(F) INABILITY TO RETAIN CLIENTS AND ATTRACT NEW CLIENTS

Scottish Pacific's contracts, including with key Clients, may be terminated without cause, in some cases on a short notice period. This could include a loss of key Clients. A failure to replace those Clients with new, equally profitable Clients, could materially impact on Scottish Pacific's earnings. This could occur due to a range of events including changes to Client funding requirements, a deterioration in the level of service provided to the Client, a weakening of Client relationships or disputes with Clients, Client insolvency or a Client moving to a competitor.

In addition to the risk of losing Clients, Scottish Pacific is also at risk of existing Clients reducing their use of Debtor Financing. This could occur because the Client chooses to use other forms of financing, or because the Client's volume of business reduces (meaning it generates less and smaller invoices for which it seeks Debtor Financing).

Scottish Pacific provides its Clients with a range of products and services including Factoring, Discounting, Trade Finance and Bad Debt Protected Facilities. Margins vary considerably across the range of products and services that Scottish Pacific provides. Therefore, a change in the mix of products and services that Scottish Pacific sells to its Clients could have a material adverse impact on Scottish Pacific's financial performance.

Any of these factors could materially adversely affect Scottish Pacific's level of business, and the fees and Net Margin it earns, and therefore its operating and financial performance.

(G) DISRUPTION TO TECHNOLOGY PLATFORM

Scottish Pacific's technology platform may be disrupted, become outdated or cease to function efficiently for Scottish Pacific and its Clients and debtors. They could also be exposed to damage or interruption from systems failures, computer viruses, cyber-attacks or other events. This could have a material adverse impact on Scottish Pacific's business, operating and financial performance. Scottish Pacific's technology platform is critical to its operations and ability to manage collection of receivables and the amount of funds it advances to Clients. It depends on the uninterrupted operation of its IT systems to operate its business. Any major disruption to Scottish Pacific's IT systems could materially affect its operations and reputation. This would necessitate increased expenditure on technology and could adversely affect future levels of business and Scottish Pacific's financial performance.

Scottish Pacific manages this risk by maintaining a disaster recovery site that replicates all information and operating capabilities of the technology platform.

(H) BUSINESS CONTINUITY

Scottish Pacific is dependent on the provision of data by third parties, such as the banks with which it does business and its Clients. Its business requires it to process a large number of transactions on a daily basis, the data for which is provided by such third parties. Any failure in third party information and data systems may impact on Scottish Pacific's ability to operate its business, including requiring it to cease its operating business during the period of interruption, or making erroneous assumptions when advancing funding or recovering receivables. This may result in financial loss to Scottish Pacific.

(I) EMPLOYEE RECRUITMENT AND RETENTION

The success of Scottish Pacific depends to a significant extent on the ability and performance of its key personnel, in particular, its leadership team. The loss of key personnel, sustained underperformance by key personnel or an inability to recruit or retain suitable replacements or additional personnel may impact Scottish Pacific's ability to develop and implement its growth strategies which may have an adverse effect on its future financial performance.

The success of Scottish Pacific is highly dependent on its ability to attract and retain experienced and high performing employees with specialist skills, including BDMs, CRMs, other Operational Staff as well as senior management. There is a risk that any measures put in place by Scottish Pacific to recruit and retain such employees may not be effective, or may result in material expenditure being required to recruit new, experienced and high performing employees, which may have a material adverse effect on Scottish Pacific's business, operating and financial performance.

(J) INCREASES IN COMPETITION

The markets in which Scottish Pacific operate are competitive. Competitors may engage in more aggressive marketing, invest in improved Client services or technology offerings, undertake consolidation activities, or adopt more aggressive pricing strategies to gain scale and improve their market share. Scottish Pacific may also be exposed to heightened competition resulting from the re-entrance of large financial institutions such as major Australian banks to the industry and new entrants, including technology-enabled players.

As a result of these competitive dynamics, Scottish Pacific's market position may worsen and it may not be able to retain and attract new key Clients, unless it reduces margins and fees or extends facilities on less secure terms. A potential reduction in volumes and/or revenues or increased loss rates may adversely affect Scottish Pacific's financial performance.

(K) SCOTTISH PACIFIC MAY NOT SUCCESSFULLY IMPLEMENT ITS BUSINESS INITIATIVES OR GROWTH STRATEGY

There is no guarantee that any of Scottish Pacific's growth initiatives will be successfully implemented, deliver expected returns and market share gains or ultimately be profitable. Scottish Pacific may also fail to adopt and execute the business initiatives that will enable it to successfully maintain or improve its service and product offering to its Clients and meet their requirements. Failure to do so could result in Clients choosing to utilise Scottish Pacific's competitors to meet their funding requirements, potentially leading to a worsening of Scottish Pacific's market position and financial performance.

(L) EXPOSURE TO ADVERSE ECONOMIC CONDITIONS

Scottish Pacific's business is exposed to changes in general economic conditions in Australia and internationally. For example, the Debtor Finance industry is affected by macroeconomic conditions such as economic recessions, downturns or extended periods of uncertainty or volatility, which may influence demand for Debtor Finance services. Historically, Scottish Pacific has grown throughout the economic cycle. Adverse economic conditions may disrupt SME growth, impair the collectability of receivables or reduce the demand for working capital solutions provided by Scottish Pacific. These factors may materially adversely affect Scottish Pacific's business, operating and financial performance, including potentially higher loss rates.

(M) POLITICAL, LEGISLATIVE OR REGULATORY MATTERS MAY NEGATIVELY AFFECT SCOTTISH PACIFIC

Scottish Pacific is required to comply with a range of laws and regulations that relate to its business, such as financial services laws, credit laws, the Corporations Act, privacy, work health and safety, and employment. At present, given the nature of the products that Scottish Pacific makes available to its Clients, Scottish Pacific is not required to comply with laws and regulations that are as stringent as those which apply to other kinds of financial institutions, such as banks. However, this could change in future with any change in regulatory policy. Future changes to laws and regulations in any of these areas may increase the costs of operation or adversely affect Scottish Pacific's ability to conduct its operations. A failure by Scottish Pacific to comply with applicable laws and regulations may subject Scottish Pacific to significant penalties, including payment of compensation, and may also result in the termination of, or failure to renew, material contracts.

6.4 RISKS THAT MAY PREVENT THE SCHEME FROM BECOMING EFFECTIVE OR BEING IMPLEMENTED

(A) REGULATORY APPROVAL DELAYS

As set out in Section 3.7(a), the Scheme is subject to a number of Conditions Precedent, including the receipt of foreign and domestic regulatory approvals (including Court approval and any approvals from ASX, ASIC, FIRB and certain other foreign regulatory bodies which are necessary to implement the Scheme).

There is a risk that foreign and domestic regulatory approvals may not be obtained, or may be obtained subject to conditions upon which the Bidder and/or Scottish Pacific (as applicable) are not prepared to accept (acting reasonably), or may be delayed, or that the Court may not approve the Scheme, or may delay the Scheme.

(B) CHANGE OF CONTROL CONSENT REQUIREMENTS

A number of contracts to which members of the Scottish Pacific Group are a party (including leases, servicing contracts, and financing arrangements) contain change of control provisions that will, or may if certain conditions pertain, be triggered either by or upon the entry into the Scheme Implementation Agreement, the Scheme, the acquisition of Scottish Pacific Shares by Bidder on the implementation of the Scheme or the delisting of Scottish Pacific. Such provisions allow the counterparty to, variously, demand immediate or earlier repayment of borrowed monies, review, adversely modify or terminate the contract. Such counterparties may also seek damages, injunctive relief or specific performance in respect of breaches of these contracts as a result of or in connection with the Scheme.

The only consent requirements which are Conditions Precedent to the Scheme are those contained in certain of Scottish Pacific's debt and warehouse funding facilities. The Scheme will not proceed unless these consents are obtained or the Bidder waives the relevant Condition Precedent.

However, although no other consent is a Condition Precedent, if a counterparty to another contract were to refuse to provide consent to the proposed change of control, seek to terminate or renegotiate a contract, or seek damages, injunctive relief or specific performance in respect of any breach of such contract, this may, individually or in aggregate, have an adverse effect on the ability to successfully implement the Scheme.

7. Taxation implications

7.1 INTRODUCTION

This Section 7 is a general outline of the Australian tax consequences for Australian tax resident Scottish Pacific Shareholders who will dispose of their Scottish Pacific Shares under the Scheme.

This general outline reflects the current provisions of the *Income Tax Assessment Act 1936* (Cth) (**ITAA 1936**), the *Income Tax Assessment Act 1997* (Cth) (**ITAA 1997**) and the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) (**GST Act**) (collectively referred to as the **Tax Law**), and the regulations made under the Tax Law, and takes into account current tax rulings issued by the Australian Taxation Office (**ATO**) and the current administrative practices of the ATO. This outline does not otherwise take into account or anticipate changes in the Tax Law, whether by way of judicial decision or legislative action.

Please note that this outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such.

Scottish Pacific Shareholders are advised to consult their own independent tax adviser regarding the consequences of acquiring, holding or disposing of Scottish Pacific Shares in light of the Tax Law and their particular circumstances.

This outline is relevant to those persons who hold Scottish Pacific Shares as at the Scheme Record Date as capital assets for Australian tax purposes. It does not apply to persons who:

- hold their Scottish Pacific Shares on revenue account (such as share trading entities) or as trading stock;
- are temporary or non-residents of Australia for Australian taxation purposes;
- hold their Scottish Pacific Shares in connection with a business carried on through a permanent establishment outside of Australia;
- have received their Scottish Pacific Shares as a result of the participation in an incentive plan of Scottish Pacific;
- are current or former members of Scottish Pacific management who are Management Shareholders exchanging their Scottish Pacific Shares for shares in Holdco; or
- are subject to the taxation of financial arrangements rules in Division 230 of the ITAA 1997 in relation to gains and losses on their Scottish Pacific Shares.

7.2 DISPOSAL OF SCOTTISH PACIFIC SHARES

(A) CAPITAL GAINS TAX (CGT)

If the Scheme is approved and implemented, the Bidder will acquire 100% of the Scottish Pacific Shares on the Scheme Implementation Date.

The disposal of shares is a CGT event (i.e. CGT Event A1). It is expected to occur for all Scottish Pacific Shareholders when they dispose of their Scottish Pacific Shares under the Scheme. The time of the CGT Event A1 is when the Scheme is implemented (i.e. the Implementation Date).

(B) CALCULATION OF A CAPITAL GAIN OR LOSS

As a result of this CGT event, Scottish Pacific Shareholders will realise:

- a capital gain on the Implementation Date, if the capital proceeds from the disposal of their Scottish Pacific Shares exceeds the cost base of their Scottish Pacific Shares; or
- a capital loss on the Implementation Date, if the capital proceeds from the disposal of their Scottish Pacific Shares is less than the reduced cost base of their Scottish Pacific Shares.

Capital gains and capital losses made by a Scottish Pacific Shareholder in an income year from all sources are aggregated to determine whether they make a net capital gain or net capital loss for that income year. The net capital gain should be included in the assessable income of the Scottish Pacific Shareholder.

Cost base

The cost base (or reduced cost base) of the Scottish Pacific Shares should generally be the amount paid to acquire the Scottish Pacific Shares plus incidental costs of ownership (provided the costs have not previously been claimed as an income tax deduction).

Capital proceeds

The capital proceeds are expected to be the cash component of the Scheme Consideration amount of \$4.40 per Scottish Pacific Share.

CGT Discount

Scottish Pacific Shareholders who are individuals, complying superannuation entities, trustees of trusts or (in limited circumstances) life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their Scottish Pacific Shares if they have held their Scottish Pacific Shares for at least 12 months before the Implementation Date (the reduction is referred to as the **CGT Discount**). The CGT Discount is applied only after available current year and carried forward capital losses have been applied to reduce the capital gain.

The CGT Discount rate is 50% for individuals and trustees, and 33.3% for complying superannuation entities and life insurance companies.

7.3 GOODS AND SERVICES TAX (GST)

Scottish Pacific Shareholders should not be liable to GST in respect of a disposal of the Scottish Pacific Shares.

Scottish Pacific Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. Scottish Pacific Shareholders should seek independent advice in relation to the recovery of any GST incurred.

8. Additional information

8.1 INTERESTS OF SCOTTISH PACIFIC DIRECTORS IN SCOTTISH PACIFIC

As at the date of this Scheme Booklet, the number of Scottish Pacific Shares held by or on behalf of Scottish Pacific Directors is as follows:

| SCOTTISH PACIFIC DIRECTOR | NUMBER OF SCOTTISH PACIFIC SHARES |
|---|-----------------------------------|
| Patrick Elliott: Independent Non-Executive Chairman | 896,895 |
| Peter Langham: Chief Executive Officer and Executive Director | 3,631,966 |
| Peter Clare: Independent Non-Executive Director | 249,300 |
| Katrina Onishi: Independent Non-Executive Director | 40,000 |
| Andrew Love: Independent Non-Executive Director | 66,250 |
| Total | 4,884,411 |

Scottish Pacific Directors who hold Scottish Pacific Shares will be entitled to vote at the applicable Scheme Meeting and receive the Scheme Consideration along with the other Scheme Shareholders.

Each Scottish Pacific Director intends to vote, or cause to be voted, all Scottish Pacific Shares held or Controlled by them in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to consider the Scheme to be in the best interests of Scottish Pacific Shareholders (including Management Shareholders).

The Relevant Interests of Scottish Pacific Directors in Scottish Pacific Options as at the date of this Scheme Booklet, and the treatment of the Scottish Pacific Options in connection with the Scheme, is set out in Section 8.4.

8.2 INTERESTS OF SCOTTISH PACIFIC DIRECTORS IN THE BIDDER GROUP

Mr Peter Langham currently holds a Relevant Interest in 2% of the issued ordinary shares in Holdco through Langham Investments Pty Ltd (ACN 116 981 910), an entity affiliated with Mr Peter Langham.

Apart from Mr Peter Langham, no other Scottish Pacific Director has a Relevant Interest in any securities in the Bidder Group.

8.3 STATUS OF REGULATORY CONDITIONS

The implementation of the Scheme is subject to various approvals, consents or relief being obtained from various regulatory authorities. As at the date of lodgement of this Scheme Booklet with ASIC for registration, Scottish Pacific, the Bidder and Holdco have applied for all of the regulatory approvals, consents or relief which they consider are necessary or desirable for the purposes of implementing the Scheme.

8.4 SCOTTISH PACIFIC MANAGEMENT INCENTIVE ARRANGEMENTS

Scottish Pacific has in place a LTI Plan to assist in the motivation, reward and retention of executive directors and other selected employees. The LTI Plan is designed to align participants' interests with the interests of Scottish Pacific Shareholders by providing participants an opportunity to receive Shares through the granting of Scottish Pacific Options. As at the date of this Scheme Booklet, there are on issue 4,243,619 Scottish Pacific Options which entitle the holder, on exercise, to acquire one or more Scottish Pacific Share at the exercise price (if any) upon exercise of each Scottish Pacific Option.

As at the date of this Scheme Booklet, the current Scottish Pacific Option holdings are as follows:

| SCOTTISH PACIFIC OPTIONHOLDER | NUMBER OF SCOTTISH PACIFIC OPTIONS |
|--|---|
| Peter Langham: Chief Executive Officer and Executive Director | 984,940 |
| Chris Hedge: Executive Director (UK) | 546,499 |
| David Rose: Chief Financial Officer and Company Secretary | 258,070 |
| Wayne Smith: Group Executive, Debtor Finance | 328,601 |
| Craig Michie: Group Executive, Specialised Finance | 312,095 |
| Steven Davies: Chief Operating Officer | 336,490 |
| Justin Doczy: State General Manager (NSW/ACT) | 303,347 |
| Rob Lamers: State General Manager (Qld) | 149,872 |
| Wayne Goss: State General Manager (WA) | 294,590 |
| Greg Wertheim: State General Manager (NZ) | 115,286 |
| Ben Cutler: Head of Marketing | 173,376 |
| Andrew Paulsen: Head of Group Finance | 21,448 |
| Nick McAvoy: Head of IT & Business Systems | 73,244 |
| Jess Hogan: Head of Human Resources | 45,519 |
| <i>Scottish Pacific Options to be cancelled for nil consideration prior to the Scheme becoming Effective</i> | 300,242 |
| Total | 4,243,619 |

A requirement under the Scheme Implementation Agreement is that all Scottish Pacific Options and other securities convertible into Scottish Pacific Shares are converted and/or exercised and subject to the Scheme or are otherwise cancelled or acquired on terms acceptable to the Bidder. Prior to the Scheme being implemented, 300,242 Scottish Pacific Options will be cancelled for nil consideration. The remaining 3,943,377 Scottish Pacific Options will be cancelled in exchange for cash payments from Scottish Pacific equivalent to the Scheme Consideration net of the relevant exercise price that the relevant holder would have received had their Scottish Pacific Options been validly exercised or converted prior to the Scheme Meetings.

8.5 BENEFITS AND AGREEMENTS

(A) BENEFITS IN CONNECTION WITH RETIREMENT FROM OFFICE

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of Scottish Pacific or any member of the Scottish Pacific Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in Scottish Pacific or any member of the Scottish Pacific Group as a result of the Scheme.

(B) AGREEMENTS CONNECTED WITH OR CONDITIONAL ON THE SCHEME

As noted in Section 8.4, Mr Peter Langham holds 984,940 Scottish Pacific Options that will be subject to the regime described in Sections 3.10 and 8.4. Other than this, there are no agreements or arrangements made between any Scottish Pacific Director and any other person in connection with, or conditional on, the outcome of the Scheme.

Additional information

The Bidder has agreed to indemnify the Scottish Pacific Group and its respective directors against all claims, demands, damages, losses, costs, expenses and liabilities incurred directly or indirectly as a result of any breach of the representations and warranties given by the Bidder in clause 13.4 of the Scheme Implementation Agreement.

(C) INTERESTS OF SCOTTISH PACIFIC DIRECTORS IN CONTRACTS WITH THE BIDDER OR BIDDER GROUP

As noted in Section 8.2, Mr Peter Langham currently holds a Relevant Interest in 2% of the issued ordinary shares in Holdco. As Holdco Shares are subject to the Investment Deed, Mr Peter Langham has executed the Investment Deed in his own capacity and in his capacity as sole director and sole company secretary of Langham Investments Pty Ltd (ACN 116 981 910).

Apart from Mr Peter Langham, none of the Scottish Pacific Directors have any interests in any contracts entered into by the Bidder or the Bidder Group.

(D) BENEFITS UNDER THE SCHEME OR FROM THE BIDDER OR BIDDER GROUP

In connection with the Scheme, Mr Peter Langham

- is entitled to make an election for the Scrip Option; and
- will receive a cash payment of \$1,393,471 in respect of the cancellation of his Scottish Pacific Options prior to the Scheme being implemented.

Apart from Mr Peter Langham, none of the Scottish Pacific Directors have agreed to receive, or are entitled to receive, any benefit from the Bidder or the Bidder Group which is conditional on, or is related to, the Scheme.

8.6 ASIC RELIEF AND ASX WAIVER

(A) ASIC RELIEF

No ASIC relief was required for the purposes of the Scheme or the issue of this Scheme Booklet.

(B) ASX WAIVERS

ASX has granted Scottish Pacific a waiver of ASX Listing Rule 6.23.2 to the extent necessary to permit the cancellation for consideration of 3,943,377 Scottish Pacific Options as set out in Section 8.4.

8.7 CONSENTS AND DISCLOSURES

(A) CONSENTS

The following parties have given, and have not, before the time of registration of this Scheme Booklet by ASIC, withdrawn, their written consent to be named in this Scheme Booklet in the form and context in which they are named:

- PwC as legal adviser and tax adviser to Scottish Pacific;
- Citi as financial adviser to Scottish Pacific;
- KPMG Corporate Finance as the Independent Expert; and
- Link Market Services as the Share Registry.

PwC has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to the inclusion of the information contained in Section 7 of this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that information in the form and context in which it appears.

KPMG Corporate Finance has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that report in the form and context in which they appear.

Each of Concordant, the Bidder and Holdco have given, and have not withdrawn before the time of registration of this Scheme Booklet by ASIC, its consent to be named in this Scheme Booklet in the form and context in which it is named and, in the case of the Bidder, its consent to the inclusion of the Bidder Group Information in this Scheme Booklet in the form and context in which that information is included.

(B) DISCLOSURES AND RESPONSIBILITIES

Each party named in Section 8.7(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in Section 8.7(a); and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in Section 8.7(a).

8.8 MATERIAL LITIGATION

To the best knowledge of the Scottish Pacific Board and the Scottish Pacific leadership team, other than as previously disclosed, Scottish Pacific is not involved in any other litigation or dispute which is material in the context of Scottish Pacific and its subsidiaries taken as a whole.

8.9 NO UNACCEPTABLE CIRCUMSTANCES

The Scottish Pacific Board believe that the Scheme does not involve any circumstances in relation to the affairs of any member of Scottish Pacific that could reasonably be characterised as constituting “unacceptable circumstances” for the purposes of section 657A of the Corporations Act.

8.10 SUPPLEMENTARY INFORMATION

If Scottish Pacific becomes aware of any of the following between the date of this Scheme Booklet and the Second Court Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter that has arisen and which would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Scottish Pacific may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to Scottish Pacific Shareholders at their registered address as shown in the Scottish Pacific Register; or
- posting a statement on Scottish Pacific’s website at <https://investors.scottishpacific.com/investors/>,

as Scottish Pacific in its absolute discretion considers appropriate.

Additional information

8.11 OTHER INFORMATION

(A) REGISTRATION OF SCHEME BOOKLET WITH ASIC

This Scheme Booklet was registered with ASIC on Friday, 26 October 2018 in accordance with section 412(6) of the Corporations Act. ASIC takes no responsibility for the content of this Scheme Booklet.

(B) DOCUMENTS AVAILABLE

An electronic version of this Scheme Booklet, including the Independent Expert's Report and the Scheme Implementation Agreement, are available for viewing and downloading online at Scottish Pacific's website at <https://investors.scottishpacific.com/investors/>.

(C) OTHER MATERIAL INFORMATION

Other than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Annexures to this Scheme Booklet, there is no other information that is material to the making of a decision by a Scottish Pacific Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any Scottish Pacific Director and which has not previously been disclosed to Scottish Pacific Shareholders.

9. Glossary

| TERM | DEFINITION |
|--------------------------------------|---|
| A\$ | Australian dollars. |
| Affinity | Has the meaning given in Section 5.2(a). |
| Annual General Meeting | The annual general meeting of Scottish Pacific Shareholders. |
| Asset Finance | A loan for the purchase of a non-trade receivables asset, whereby the funds advanced are secured over the asset itself. |
| ASIC | Australian Securities and Investments Commission. |
| ASX | ASX Limited (ACN 008 624 691), and where the context permits, the Australian Securities Exchange operated by ASX Limited. |
| ASX Listing Rules | The official listing rules, from time to time, of ASX. |
| ATO | Australian Taxation Office. |
| Australian Auditing Standards | The Australian Accounting Standards issued by the Auditing and Assurance Standards Board (AUASB). |
| Australian ADI | Has the meaning given in the Corporations Act. |
| Average Exposure | The annual Exposure expressed as an average of month end closing balance of the aggregated Client current accounts for all Clients. |
| Bad Debt Protected Facilities | Debtor Finance facilities where the Client does not have to account to the Scottish Pacific Group for the bulk of any bad debt costs (i.e., the Scottish Pacific Group does not have recourse to the Client for bulk of bad debts assigned to it). |
| BBSW | Bank Bill Swap Rate. |
| BBSY | Bank Bill Swap Bid Rate. |
| BDM | Business Development Manager. A Sales Staff member in charge of sourcing new business. At Scottish Pacific, BDMs spend significant time developing and maintaining Scottish Pacific's referral network. |
| Benchmark Debtor Finance | Benchmark Debtor Finance Pty Ltd (ACN 082 607 654). |
| Bibby | Scottish Pacific (BFS) Pty Limited (formerly Bibby Financial Services Australia Pty Limited) and its subsidiaries. |
| Bidder | SME Capital Investments III Pty Ltd (ACN 628 950 514). |
| Bidder Group | The Bidder and its Subsidiaries and Concordant and any of its Subsidiaries that directly or indirectly controls the Bidder and its Subsidiaries and a reference to a Bidder Group Member or a member of the Bidder Group is a reference to any one of them, but does not include any other Subsidiaries or portfolio companies of Concordant. |
| Bidder Group Information | The information contained in Section 3.5(e) and Section 5, and under the headings "Who are the Bidder, Holdco and Affinity?" on page 21, and "How is the Bidder funding the Scheme Consideration?" on page 23, of this Scheme Booklet. |
| Break Fee | Has the meaning given to that term in the Scheme Implementation Agreement. |

Glossary

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| Business Day | A day that is not a Saturday, Sunday or a public holiday or bank holiday in Melbourne, Victoria, Australia. |
| CAGR | Compound annual growth rate. The mean annual growth rate of an investment over a specified period of time. |
| Cash Scheme Consideration | <p>An amount equal to the aggregate amount of the cash component of the Scheme Consideration payable to Scheme Shareholders under the Scheme, being:</p> <p>(a) \$4.40 per Scottish Pacific Share, payable to all Scottish Pacific Shareholders except those Management Shareholders who make a valid election for the Scrip Option; or</p> <p>(b) in respect of the balance of the Scottish Pacific Shares held by Management Shareholders who make a valid election for the Scrip Option (after the issue of 1 Holdco Share per Scottish Pacific Share in respect of 50% of the Scottish Pacific Shares held by those Management Shareholders), \$4.40 per Scottish Pacific Share.</p> |
| CEO | Chief Executive Officer. |
| CFO | Chief Financial Officer. |
| CGT | Australian capital gains tax. |
| CGT Discount | The reduction in a capital gain made by a Scottish Pacific Shareholder who meet certain conditions. |
| CHESS | Clearing House Electronic Subregister System, which provides for electronic share transfers in Australia. |
| Citi | Citigroup Global Markets Australia Pty Limited (ACN 003 114 832). |
| Client | A client of the Scottish Pacific Group or the Debtor Financier (i.e. a third party with which the Scottish Pacific Group or Debtor Financier has entered into a Debtor Finance or Trade Finance arrangement). |
| Client Funding Amounts | Funds from the sale of the receivables to the Funding Vehicle used by Scottish Pacific to pay its Clients. These funds are paid by Scottish Pacific to its Clients in respect of approved invoices assigned by the Clients to Scottish Pacific. |
| Co-Investor Parties | <p>(a) Peter Langham; and</p> <p>(b) Langham Investments Pty Ltd (ACN 116 981 910)</p> |
| Commercial Finance Broker | A distributor that refers Clients seeking funding and advice to lenders that match their needs, such as Scottish Pacific. |
| Competing Transaction | Has the meaning given to that term in the Scheme Implementation Agreement. |
| Concordant | Concordant Investments Pte Ltd, a Singaporean private company. |
| Conditions Precedent | The conditions precedent to the Scheme set out in clause 3.1 of the Scheme Implementation Agreement. A summary of the Conditions Precedent is set out in Section 3.7(a). |
| Control | Has the meaning given to it in section 50AA of the Corporations Act and Controlled has the equivalent meaning. |

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| Corporate Debt Facilities or Corporate Debt Facility | The financing provided to the Scottish Pacific Group by external financiers to fund a range of general corporate purposes. |
| Corporations Act | <i>Corporations Act 2001</i> (Cth). |
| Corporations Regulations | <i>Corporations Regulations 2001</i> (Cth). |
| Court | The Supreme Court of Victoria. |
| CRM | Client Relationship Manager. An Operational Staff manager responsible for ongoing Client contact and management. Each CRM manages a portfolio of Clients from both a credit and service perspective. |
| Debtor Financing | The funding of a business, whereby the funds advanced to the business are secured over its receivables. |
| Debtor Financier | A business providing Debtor Finance. |
| Deed Poll | The deed poll set out in Annexure C of this Scheme Booklet. |
| Discounting | Discounting is the sale by a business (the Client) and the purchase by the Debtor Financier of trade debts on a continuing basis. The Client retains the sales accounting functions and is responsible for collection of the debts. The debtors are usually unaware of the involvement of the Debtor Financier. |
| Effective | The coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme. |
| Effective Date | The date on which the Scheme becomes Effective. |
| Election Form | An election form for the use of Management Shareholders who wish to elect the Scrip Option. |
| End Date | 15 March 2019 (or such later date that Scottish Pacific and the Bidder agree in writing). |
| Equity Commitment Letter | The binding commitment letter executed by Concordant addressed to the Bidder. See further at Section 5.3(a). |
| Exclusivity Period | The period from the date of the Original Scheme Implementation Agreement until the earlier of the termination of the Scheme Implementation Agreement and the End Date. |
| Export Financing | An avenue for Clients to have a portion of export debtors or domestic debtors in foreign currency eligible for funding. It is usually provided on a disclosed basis. |
| Exposure | Represents drawn funding by Clients. |
| Factoring | Factoring is the sale by a business (the Client) and the purchase by the Debtor Financier of trade debts on a continuing basis. The Debtor Financier will carry out some part of the sales accounting function, as agreed between the Client and the Debtor Financier. The debtors are aware that the debts have been assigned to the Debtor Financier and that payment must be made to the Debtor Financier to discharge the debt. |
| FCA | Financial Conduct Authority of the United Kingdom. |
| First Court Date | The date the Court first hears the application to order the convening of each Scheme Meeting under section 411(1) of the Corporations Act. |

Glossary

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| Foreign Shareholder | A Scheme Shareholder whose address in the Register as at the Scheme Record Date is a place outside Australia or New Zealand unless the Bidder and Scottish Pacific agree in writing that it is lawful and not unduly onerous or impracticable to issue Holdco Shares to that Scheme Shareholder if the Scheme Shareholder so elects under the Scheme. |
| Funding Vehicles | Special purpose trusts established by the Scottish Pacific Group to fund Client Funding Amounts, primarily using funds raised under the Senior Facilities. |
| FY | The financial year ended or ending 30 June. |
| Governmental Agency | Any government or governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency or entity. |
| GST | Goods and services tax under the GST Law. |
| GST Act | <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth), as in force from time to time. |
| GST Law | Has the same meaning as in the GST Act. |
| High Touch | A more service intensive model characterised by a focus on customer service, frequent Client to Debtor Financier and debtor to Debtor Financier (Factoring only) interactions, higher Operational Staff to Client ratios and a higher level of monitoring of the Client's trading and operating performance. |
| Holdco | SME Capital Holdings Pty Ltd (ACN 628 947 544) |
| Holdco Shares | A fully paid ordinary share in the capital of Holdco. |
| Holdco Constitution | The constitution of Holdco. |
| Import Finance | Combined with a traditional Debtor Finance facility, Import Finance provides a complete supply chain funding solution for importers, providing access to working capital from the time the orders are placed until the time that payment is received from the importer's customer. All Import Finance Clients are required to have a Debtor Finance facility. |
| Implementation Date | The 5th Business Day following the Scheme Record Date or such other date as is agreed by the Bidder and Scottish Pacific. |
| Independent Expert | KPMG Corporate Finance. |
| Independent Expert's Report | The report prepared by the Independent Expert dated 24 October 2018, which is included in Annexure A to this Scheme Booklet. |
| Investment Deed | The investment deed in relation to Holdco. |
| IPO | Initial public offering. |
| IT | Information technology. |
| ITAA 1936 | <i>Income Tax Assessment Act 1936</i> (Cth). |
| ITAA 1997 | <i>Income Tax Assessment Act 1997</i> (Cth). |
| Junior Notes | Investment interests in the Funding Vehicles (primarily issued to the Mezzanine Vehicle) or the Mezzanine Vehicle (issued to the Scottish Pacific Group) that have a lower priority for payment of interest and repayment of principal than investments held, or loans made, by other financiers (including the Senior Notes and Senior Loans). |

| | |
|--|--|
| KPMG Corporate Finance | KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215) (of which KPMG Corporate Finance is a division). |
| Last Practicable Trading Date | 24 October 2018, being the last practicable trading date before the date of this Scheme Booklet. |
| Link Market Services | Link Market Services Limited (ACN 083 214 537). |
| LTI Plan | The long term incentive plan operated by the Scottish Pacific Group. |
| LVR | Loan to value ratio, refers to the value of funds advanced by Scottish Pacific Clients relative to the value of collateral assigned to Scottish Pacific. |
| Management Fees | All management fees including Management Fees – Debtor Finance and Management Fees – Trade Finance and Other. |
| Management Fees – Debtor Finance | This management fee income reflects fees charged from Factoring and Discounting products provided by Scottish Pacific. It includes administration fees, liquidated damages and termination fees, application and commitment fees and other sundry income (bank fees and legal fees are recovered from Clients and have a nil impact). It also includes revenue associated with provision of Specialty Products (e.g. SIF, Bad Debt Protected Facilities, Asset Finance). |
| Management Fees – Trade Finance and Other | Consist of administration fees flowing from Tradeline (short-term lines of credit), Import Finance and Export Finance. |
| Management Shareholder | In respect of the Scrip Option, a Scottish Pacific Shareholder, other than a Foreign Shareholder, who is an employee (or an affiliate of an employee) of a member of the Scottish Pacific Group who earns an annual salary of \$200,000 or more. |
| Management Scheme Meeting | The meeting of Management Shareholders who make a valid election for the Scrip Option convened by the Court under section 411(1) of the Corporations Act. |
| Material Adverse Effect | Has the meaning in the Scheme Implementation Agreement. |
| Mezzanine Facility | The financing provided to the Mezzanine Vehicle by external financiers and the Scottish Pacific Group. |
| Mezzanine Vehicle | The special purpose trust established by the Scottish Pacific Group to purchase Junior Notes from the Funding Vehicles and provide “first loss” capital support to the Senior Facilities. |
| Net Interest Income | The revenue item including income earned on the amount drawn down by Clients offset by Senior Facility and Mezzanine Facility funding costs. This is calculated on a daily basis and includes gross revenue charged daily on drawn funding Exposure, less interest paid, commissions and unused line fees. |
| Net Margin | The residual funds available for distribution to Scottish Pacific after the relevant fees and debts to the Senior Notes and higher ranked Junior Notes have been repaid. |
| Net Revenue | Consists of Management Fees – Debtor Finance, Management Fees – Trade Finance and Other and Net Interest Income. |
| Next Capital | Next Capital Pty Limited (ACN 111 963 583). |
| NPATA | Net profit after tax and amortisation. |

Glossary

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|---|--|
| Notices of Scheme Meetings | The notice of meetings convening the Scheme Meetings, set out in Annexure D to this Scheme Booklet. |
| Operational Staff | Operational Staff oversee risk management of Client funding Exposures and are directly accountable for losses. Operational Staff include CRMs who manage a portfolio of Clients from both a credit and service perspective. |
| Original Scheme Implementation Agreement | The Scheme Implementation Agreement dated 24 September 2018 between Scottish Pacific and the Bidder which was amended and replaced by the Scheme Implementation Agreement on 24 October 2018. |
| Progress Claim Finance | A Debtor Finance solution for businesses that engage in contractual type arrangements. |
| Proxy Form | The proxy form which accompanies each Notice of Scheme Meeting (which are set out in Annexure D to this Scheme Booklet). |
| PwC | PricewaterhouseCoopers (ABN 52 780 433 757). |
| Register | The register of members of Scottish Pacific maintained by, or on behalf of, Scottish Pacific in accordance with section 168(1) of the Corporations Act. |
| Related Body Corporate | Has the meaning given to it in section 50 of the Corporations Act. |
| Relevant Interest | Has the meaning given to it in sections 608 and 609 of the Corporations Act. |
| Requisite Majorities | <p>(a) Unless the Court orders otherwise, a majority in number (more than 50%) of Scottish Pacific Shareholders present and voting at the applicable Scheme Meeting (whether in person, by proxy, by attorney or in the case of a corporate Scottish Pacific Shareholder, by a corporate representative); and</p> <p>(b) at least 75% of the total number of votes cast on the relevant Scheme Resolution.</p> |
| Reverse Break Fee | Has the meaning given to that term in the Scheme Implementation Agreement. |
| Sales Staff | Sales Staff oversee the sourcing of new business and the development and maintenance of Scottish Pacific's extensive referral network. |
| Scheme | The scheme of arrangement under Part 5.1 of the Corporations Act, which is proposed to be entered into between Scottish Pacific and Scottish Pacific Shareholders, a copy of which is set out in Annexure B to this Scheme Booklet |
| Scheme Booklet | This scheme booklet, which is dated Friday, 26 October 2018. |

| | |
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| Scheme Consideration | <p>(a) If the Scheme Shareholder is not a Management Shareholder or is a Management Shareholder who has not made a valid election for the Scrip Option, \$4.40 per Scottish Pacific Share that they hold at the Scheme Record Date; and</p> <p>(b) if the Scheme Shareholder is a Management Shareholder who has made a valid election for the Scrip Option:</p> <p>(i) in respect of 50% of the Scottish Pacific Shares that they hold at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus</p> <p>(ii) in respect of the balance of the Scottish Pacific Shares that they hold at the Scheme Record Date, \$4.40 per Scottish Pacific Share.</p> |
| Scheme Implementation Agreement | The Scheme Implementation Agreement dated 24 October 2018 between Scottish Pacific and the Bidder, a copy of which is set out in Annexure E to this Scheme Booklet, which amended and replaced the Original Scheme Implementation Agreement. |
| Scheme Meetings | The Scottish Pacific Scheme Meeting or the Management Scheme Meeting or both, as the context requires. |
| Scheme Record Date | 5:00pm on the 5th Business Day following the Effective Date or such other date as Scottish Pacific and the Bidder agree in writing. |
| Scheme Resolution | The resolutions to approve the Scheme to be voted on at the Scheme Meetings, as set out in the Notices of Scheme Meetings, and Scheme Resolution means either one of them (as the circumstances require). |
| Scheme Shareholder | Each holder of Scottish Pacific Shares on the Scheme Record Date. |
| Scottish Pacific | Scottish Pacific Group Limited (ACN 164 013 110). |
| Scottish Pacific Board | The board of directors of Scottish Pacific. |
| Scottish Pacific Constitution | The constitution of Scottish Pacific. |
| Scottish Pacific Directors or Directors | The directors of Scottish Pacific. |
| Scottish Pacific Group | Scottish Pacific and its Subsidiaries and a reference to a member of the Scottish Pacific Group is a reference to any one of them. |
| Scottish Pacific Information | Has the meaning given to that term in the "Important Notices" section of this Scheme Booklet. |
| Scottish Pacific Option | An option over an unissued ordinary share in Scottish Pacific. |
| Scottish Pacific Optionholder | A holder of a Scottish Pacific Option. |
| Scottish Pacific Scheme Meeting | The meeting of eligible Scottish Pacific Shareholders (excluding Management Shareholders who have made a valid election for the Scrip Option) convened by the Court under section 411(1) of the Corporations Act. |
| Scottish Pacific Share | A fully paid ordinary share in the capital of Scottish Pacific. |
| Scottish Pacific Shareholder | A registered holder of Scottish Pacific Shares. |

Glossary

| | |
|---|--|
| Scrip Option | For Management Shareholders who make a valid election: (a) in respect of 50% of the Scottish Pacific Shares that they hold at the Scheme Record Date (rounded down to the nearest whole Scottish Pacific Share), 1 Holdco Share per Scottish Pacific Share; plus (b) in respect of the balance of the Scottish Pacific Shares that they hold at the Scheme Record Date, \$4.40 per Scottish Pacific Share. |
| Second Court Date | The day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme. |
| Senior Facilities | The senior financing provided to the Funding Vehicles by external financiers to fund Client Funding Amounts. |
| Senior Loans | Loans made to Funding Vehicles (by financiers under some Senior Facilities) or the Mezzanine Vehicle (by the external financiers under the Mezzanine Facility) that have a higher priority for payment of interest and repayment of principal than investments held by other providers of funding. |
| Senior Notes | Investment interests in the Funding Vehicles (issued to the financiers under some Senior Facilities) that have a higher priority for payment of interest and repayment of principal than investments held by other providers of funding. |
| Share Registry | Link Market Services. |
| SIF or Selective Invoice Finance | Selective Invoice Finance is a flexible Debtor Finance facility where funding is provided against individual invoices or debtors rather than entire company ledgers (as is the case for traditional Debtor Finance products). |
| SME | Small and medium-sized enterprise. |
| Specialist Finance or Specialty Products | SIF, Bad Debt Protected Facilities, Asset Finance and other specialist Scottish Pacific Debtor Finance products. Excludes Trade Finance. |
| St. George Bank | St. George Bank – A Division of Westpac Banking Corporation (ACN 007 457 141). |
| Subsidiary | Has the meaning given to it in section 9 of the Corporations Act and Subsidiaries has a corresponding meaning. |

| | |
|--------------------------------|---|
| Superior Proposal | <p>A bona fide Competing Transaction which the Scottish Pacific Board, acting in good faith, and after taking advice from its legal and financial advisers, determines:</p> <p>(a) would, if completed substantially in accordance with its terms, result in an acquisition of an interest or Relevant Interest in 100% of Scottish Pacific Shares;</p> <p>(b) is reasonably capable of being valued and completed within 5 months, taking into account all aspects of the Competing Transaction, including its conditions, the identity, reputation and financial condition of the person making the proposal, and legal, regulatory and financial matters; and</p> <p>(c) is of a higher financial value and would, if completed substantially in accordance with its terms, be more favourable to Scottish Pacific Shareholders than the Scheme viewed in aggregate, taking into account all terms and conditions of the Competing Transaction (including the consideration, conditionality, funding, certainty and timing).</p> |
| Takeovers Panel | The Takeovers Panel constituted under the <i>Australian Securities and Investments Commission Act 2001</i> (Cth). |
| Target Prescribed Event | Has the meaning given in the Scheme Implementation Agreement. |
| Tax Adviser | PwC. |
| Tax Law | ITAA 1936, ITAA 1997 or GST Act as applicable. |
| Trade Finance | Tradeline, Export Financing and Import Finance. |
| Tradeline | An unsecured import finance and buying facility, backed by insurance. Similar to non-recourse Debtor Finance, available to international traders whereby Scottish Pacific purchases goods from the seller (overseas supplier) and provides credit terms to the buyer (importer). |
| Turnover | The face value of assigned invoices (i.e. invoices which are assigned under a Debtor Finance or Trade Finance arrangement). |



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Privileged and confidential

The Directors
Scottish Pacific Group Limited
Level 5, 20 Bond Street
Sydney NSW 2000

24 October 2018

Dear Directors

Independent Expert Report and Financial Services Guide

PART ONE – INDEPENDENT EXPERT'S REPORT

1 Introduction

On 24 September 2018, Scottish Pacific Group Limited (Scottish Pacific) announced that it had entered into a Scheme Implementation Agreement (Original SIA) with SME Capital Investments III Pty Ltd (Bidder), an entity owned by funds managed or advised by Affinity Equity Partners Limited and its affiliates (Affinity), to acquire 100% of the issued shares of Scottish Pacific. Subsequently, on 24 October 2018, the parties entered into the Scheme Implementation Agreement (SIA) which amended and replaced the Original SIA (Proposed Transaction).

The Proposed Transaction will be implemented by way of a scheme of arrangement (Scheme) under which the holders of Scottish Pacific shares, excluding certain employees of Scottish Pacific, (Scottish Pacific Shareholders) will receive cash consideration of \$4.40 for each Scottish Pacific share (Scottish Pacific Share) held on the Scheme Record Date¹ (Scheme Consideration).

Employees of Scottish Pacific who earn an annual salary of \$200,000 or more and hold Scottish Pacific Shares² (Management Shareholders) may elect the Scrip Option under the Scheme, whereby they will receive for 50% of the Scottish Pacific Shares held³, one share in SME Capital Holdings Pty Ltd (HoldCo) (a special purpose company that was incorporated for the purpose of indirectly holding all the shares in the Bidder and issuing HoldCo shares to Management Shareholders who validly elect the Scrip Option) for each Scottish Pacific Share and for the remaining Scottish Pacific Shares held, \$4.40 in cash

¹ Scheme Record Date is 5.00pm on the 5th business day following the date on which the Scheme becomes effective

² Management Shareholders excludes employees of Scottish Pacific deemed to be a foreign shareholder

³ Rounded down to the nearest whole Scottish Pacific Share

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per share (Management Scrip Option Consideration). Management Shareholders who do not elect the Scrip Option, will receive the Scheme Consideration, consistent with Scottish Pacific Shareholders.

Implementation of the Scheme requires the approval of Scottish Pacific Shareholders and Management Shareholders (together Shareholders), and is subject to the satisfaction of a number of conditions precedent, including an independent expert determining that the Scheme is in the best interests of Shareholders and receipt of approvals, consents or relief from regulatory authorities (including the Australian Securities and Investments Commission (ASIC), the Australian Securities Exchange (ASX), the Foreign Investment Review Board (FIRB) and certain other foreign regulatory bodies). Further details of the Scheme and the conditions precedent are outlined in Section 5.2 of this report and described in Section 3.7 of the Scheme Booklet.

Scottish Pacific is an Australian public company listed on the ASX. Scottish Pacific provides specialist business finance services to small and medium sized businesses (SMEs), including debtor and trade finance. As at 19 September 2018, being the last trading day prior to the request for a trading halt in anticipation of a control transaction, Scottish Pacific had a market capitalisation of approximately \$521 million.⁴

Affinity is an independently owned fund manager, focussing on leveraged buyout and growth capital transactions across the Asia Pacific region. Affinity was established in 2004 and has advised and managed approximately US\$14 billion of funds and assets across its five funds since inception.

The board of Scottish Pacific (Board) has requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an independent expert's report for the benefit of Shareholders setting out whether, in our opinion, the Scheme is in the best interests of Shareholders (IER).

This IER sets out KPMG Corporate Finance's opinion on the Scheme and should be considered in conjunction with and not independently of the information set out in the Scheme Booklet. The specific resolutions to be put to Shareholders are set out in the Notice of Meeting included in the Scheme Booklet, to which this IER is attached.

Further information regarding KPMG Corporate Finance as it relates to the preparation of this IER is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two.

2 Requirements for our report

Section 412(1) of the *Corporations Act 2001 (Cth)* (Act) requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act, include information that is material to the making of a decision by a member as to whether or not to agree with the relevant proposal.

⁴ Calculated as 139.2 million shares at \$3.74



In this regard, although an independent expert's report is not explicitly required to be provided under Schedule 8 of the *Corporations Regulations 2001 (Cth)*, the Board has requested KPMG Corporate Finance to prepare an independent expert's report to satisfy the requirements of Section 412(1).

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (RG 111) which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a transaction is "fair and reasonable", and therefore "in the best interests" of scheme participants.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this IER.

3 Opinion

As the consideration payable under the Scheme may be different for Scottish Pacific Shareholders and Management Shareholders, we have separately considered the merits of the Scheme for each class of shareholder. In this regard, we note that Scottish Pacific Shareholders hold 96.2% of Scottish Pacific Shares and Management Shareholders hold the remaining 3.8%.

Our opinion to Scottish Pacific Shareholders is set out in Section 3.1 below and our opinion to Management Shareholders is set out in Section 3.2 below.

3.1 Opinion to Scottish Pacific Shareholders

In our opinion, the Scheme is **in the best interests of Scottish Pacific Shareholders**, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- fair, by comparing the Scheme Consideration to our assessed value of a Scottish Pacific Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111, and
- reasonable, by assessing the implications of the Scheme for Scottish Pacific Shareholders, the alternatives to the Scheme which are available to Scottish Pacific and Scottish Pacific Shareholders, and the consequences for Scottish Pacific Shareholders of not approving the Scheme.

Our assessment has concluded that the Scheme is fair and reasonable. As such, in accordance with RG 111, we have concluded that the Scheme is in the best interests of Scottish Pacific Shareholders.

The financial services industry is currently experiencing significant activity. The Hayne royal commission has increased public scrutiny of the industry, the major banks are reviewing their risk exposure, moving into lower risk asset categories and potentially exiting the wealth management sector, and an active FinTech sector is disrupting the traditional business models which have driven the industry for many years. These activities have created growth and consolidation opportunities which have attracted the interest of private equity investors, as evidenced by KKR's recent acquisition of Pepper Group Limited and Blackstone's acquisition of La Trobe Financial.

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Scottish Pacific has been a steady performer since its initial public offering (IPO) in July 2016. After a period of negative market sentiment when it failed to meet its prospectus earnings estimate for the financial year ending 30 June 2017 (FY17), it has demonstrated stable revenue growth of 8.3% in FY18, meeting the forecasts offered by Scottish Pacific management (Management) and broker expectations. It is well placed to continue to deliver stable growth, with a strong market position in an industry which has good growth dynamics, a favourable competitive environment with the strategic withdrawal from the Debtor Finance industry of several of Australia's major banks, and consolidation opportunities emerging. These dynamics mean it is an attractive target for a private equity investor, who will have more freedom to pursue a medium term strategy without having to balance short-term return requirements with longer term investment objectives, as Scottish Pacific does in its current listed state.

However, given the solid platform Scottish Pacific has created, there are limited factors that influence the level of attractiveness of the Proposed Transaction to Scottish Pacific Shareholders, other than price. The all cash consideration means Scottish Pacific Shareholders will not continue to be exposed to Scottish Pacific's performance should the Scheme be approved and therefore the critical issue we have assessed is whether the Scheme Consideration is sufficient to compensate Scottish Pacific Shareholders for fully exiting their investment in Scottish Pacific.

At a premium to the one month volume weighted average price (VWAP) of 28%, a premium to the highest traded price of 16%, a premium to the IPO price of 38% and a total return to investors into the IPO of 18% per annum (20.1% per annum including franking credits on a fully utilised basis), the Proposed Transaction clearly represents a good opportunity for Scottish Pacific Shareholders to realise their investment at an acceptable premium to the likely trading price of Scottish Pacific Shares in the short-to-medium term if the Scheme is not approved.

Our analysis is set out in further detail below.

3.1.1 The Scheme is fair to Scottish Pacific Shareholders

The Scheme Consideration falls within our assessed value range for a Scottish Pacific Share, therefore we consider the Scheme to be fair to Scottish Pacific Shareholders

Value of Scottish Pacific

We have assessed the value of Scottish Pacific (inclusive of a control premium) to be in the range of \$590.0 million to \$670.0 million, which corresponds to a value of \$4.24 to \$4.81 per Scottish Pacific Share.



Our valuation is set out in Section 8 and is summarised in the following table.

Table 1: Scottish Pacific valuation summary

| \$ millions (unless otherwise stated) | Section reference | Value range | |
|--|-------------------|---------------|---------------|
| | | Low | High |
| Value of Scottish Pacific operating business (including synergies) | 8.3 | 680.0 | 760.0 |
| Other assets/(liabilities) (net) | 8.4 | - | - |
| Enterprise value | | 680.0 | 760.0 |
| Adjusted net debt | 8.5 | (90.0) | (90.0) |
| Value of 100% of the equity in Scottish Pacific | | 590.0 | 670.0 |
| Number of Scottish Pacific Shares outstanding (millions) | 7.5 | 139.2 | 139.2 |
| Value per Scottish Pacific Share | | \$4.24 | \$4.81 |

Source: KPMG Corporate Finance analysis

Note: Table may not add due to rounding

Our valuation reflects 100% ownership of Scottish Pacific and, therefore, incorporates a control premium. As a result, we would expect the valuation to be in excess of the price at which Scottish Pacific Shares would trade on the ASX in the absence of a takeover offer. In assessing an appropriate premium for control in accordance with RG 111, we have considered synergies that may be available to a trade or financial buyer as no complimentary group of buyers in the Australian Debtor Finance industry could be identified that could achieve significant benefit from merging operations with Scottish Pacific. Direct synergies available to a trade or financial buyer would primarily comprise public company costs. Therefore, the valuation assumes that these expenses are eliminated (refer to Section 8.2.3).

The value attributed to Scottish Pacific's operating business has been based on a Discounted Cash Flow (DCF) methodology and has been cross-checked utilising a Capitalisation of Earnings methodology. We have then added non-operating assets and deducted adjusted net debt as at 31 August 2018⁵.

The key factors considered in our assessment of the value of Scottish Pacific are:

- *Leading market position.* Scottish Pacific has a leading market position in the Australian Debtor Finance industry with a well-established scalable platform and unique distribution referral network which is difficult to replicate and provides competitive advantages, particularly against the potential threat posed by the FinTech sector
- *Favourable market environment.* Scottish Pacific is well placed to leverage its strong market position and deliver robust growth in an industry which has good growth dynamics, a favourable competitive environment with the strategic withdrawal from the Debtor Finance industry of several of Australia's major banks and consolidation opportunities emerging
- *Resilient core Debtor Finance business.* Scottish Pacific's core Debtor Finance Clients are typically capital light, higher growth SMEs that have historically grown at around three times GDP. This allows Scottish Pacific to generate robust organic "on book" exposure growth through the economic cycle as its existing Client base seeks increased exposure levels to fund their growth

⁵ Net debt as at 31 August 2018 has been adjusted to reflect additional drawdowns under the corporate debt facility required to fund the final dividend payable for FY18 as well as the cash consideration payable by Scottish Pacific under the Scheme upon cancellation of all outstanding options related to the FY17 and FY18 LTI Plan. Further details in relation to the adjustments to net debt are outlined in Section 8.5

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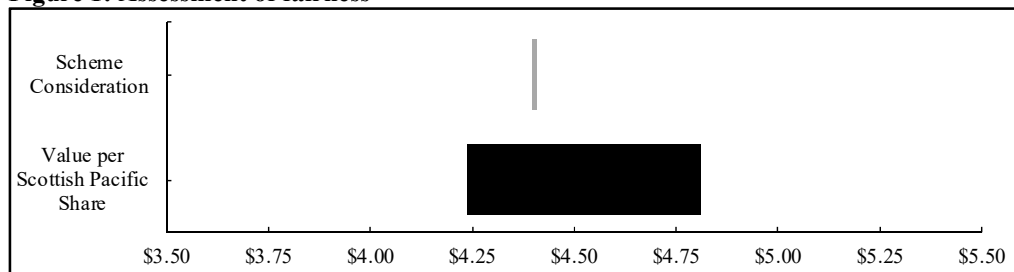
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- *Complementary Specialised Finance business.* Additional growth opportunities are available to Scottish Pacific through its complementary Specialised Finance business and a strong pipeline of new products, such as the recently launched Asset Finance offering. This broader product offering can leverage the existing Client base of the Debtor Finance business to promote growth and assist in retaining existing Clients and winning new Clients
- *High-touch Client service model.* The relatively high employee contribution required to support Scottish Pacific’s high-touch Client service model and underlying risk management processes has driven a relatively high cost-to-income ratio. Whilst a reduction in the cost-to-income ratio will naturally occur through increased scale, Scottish Pacific also has the opportunity to improve operational leverage through the adoption of technology to streamline processes and the integration of prior acquisitions onto its Aquarius platform
- *Continuous funding requirements.* Scottish Pacific has a diversified and capital efficient funding model that allows it to fund exposure growth with a relatively low capital contribution. Scottish Pacific has longstanding relationships with its senior and mezzanine lenders and its current funding vehicles have sufficient capacity to fund the expected growth in the business over the medium term. However, additional capital contributions are currently required to fund new loan originations in the Specialised Finance business which cannot yet be funded through Scottish Pacific’s existing funding vehicles
- *Exposure to credit losses.* Scottish Pacific has an effective underwriting and risk management model, which is characterised by a high level of collateral and a well-diversified loan portfolio. This model has contributed to Scottish Pacific experiencing low levels of credit losses throughout the economic cycle, but the industry is always susceptible to the risk of a significant one-off fraudulent bad debt event, and
- *Positive momentum.* Scottish Pacific’s FY18 financial performance was welcomed by the market and continued robust growth is expected in FY19. Whilst the business is well positioned to continue its recent positive performance, Scottish Pacific must successfully manage a number of business challenges, including relatively high Client attrition levels, maintaining net revenue margins, continuing the downward trend in the cost-to-income ratio and achieving growth targets in the Specialised Finance business. Failure to do so will limit medium term growth outcomes.

Assessment of fairness

A comparison of our assessed value per Scottish Pacific Share on a control basis to the Scheme Consideration is illustrated in the following figure.

Figure 1: Assessment of fairness



Source: KPMG Corporate Finance analysis

According to RG 111, the Scheme should be considered fair if the consideration offered to Scottish Pacific Shareholders is equal to or higher than our assessed value of a Scottish Pacific Share. As the Scheme Consideration falls within our assessed value range for a Scottish Pacific Share, we consider the Scheme to be fair.

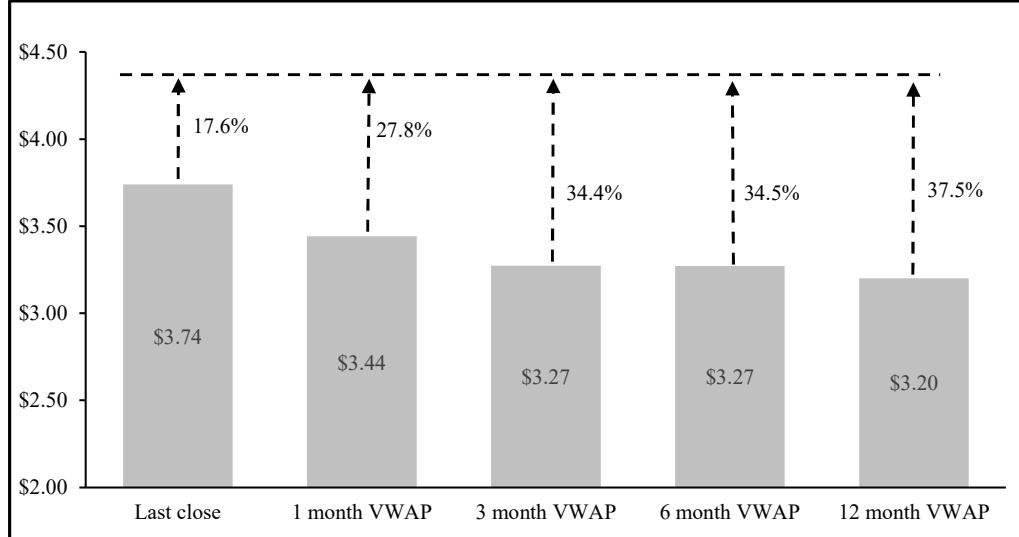
3.1.2 The Scheme is reasonable to Scottish Pacific Shareholders

In accordance with RG 111, an offer is reasonable if it is fair. As we consider the Scheme to be fair, this would imply that the Scheme is also reasonable. However, irrespective of the statutory obligation to conclude the Scheme is reasonable, we have also considered a range of other factors Scottish Pacific Shareholders may wish to take into account in considering whether to approve the Scheme.

The Scheme Consideration represents an acceptable premium to the trading price of Scottish Pacific Shares prior to the announcement of the Scheme and Scottish Pacific's IPO price

The Scheme Consideration represents an acceptable premium to the VWAP of a Scottish Pacific Share one day prior (18%), one month prior (28%) and three months prior (34%) to 19 September 2018, being the last trading day prior to the request for a trading halt in anticipation of a control transaction, and to the IPO price (38%).

Figure 2: Premium of consideration offered over the Scottish Pacific share price



Source: S&P Capital IQ; KPMG Corporate Finance analysis

In assessing the premium implied by the Scheme Consideration, we note:

- it is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. Observations from transaction

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evidence indicate that takeover premiums concentrate around a range between 25% and 40%⁶ for completed takeovers, depending on the individual circumstances of the specific transaction

- in transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was typically at the upper end or in excess of this range. For Scottish Pacific, there are limited synergy opportunities offered by funds managed or advised by Affinity due to it being a financial buyer, other than the removal of costs associated with Scottish Pacific being a listed company (approximately \$1.8 million in FY18)
- the premium to traded prices over the past 12 months is relatively consistent, reflecting a period of more stabilised trading post the volatility experienced after the earnings downgrade in FY17, as growth was demonstrated in the business, and
- the premium to the one week VWAP of 23% reflects in part the positive trading performance of Scottish Pacific Shares post the announcement of FY18 earnings in late August.

Post announcement of the Scheme, Scottish Pacific Shares have traded at a level supported by the existence of the Scheme (between \$4.31 and \$4.33 compared to the offer of \$4.40). The small discount in the traded price to the Scheme Consideration reflects, in our view, the market's assessment of the limited potential for either the Scheme not to be approved by Shareholders or for it to fail to clear the required regulatory approvals. The trading level, in our opinion, does not indicate that the market considers an alternative offer is likely to be forthcoming.

The Scheme provides an exit to Scottish Pacific Shareholders at a price which is certain and free from transaction costs

The Scheme offers Scottish Pacific Shareholders an opportunity to exit their investment in Scottish Pacific at a price that is certain and which incorporates a value for control as noted above. Whilst liquidity in the trading of Scottish Pacific Shares is sufficient to give Scottish Pacific Shareholders confidence that they would likely be able to exit their investment at a time of their choosing in the future, there is no certainty as to the price at which Scottish Pacific Shareholders would realise their investment at that time. In addition, any future on-market sale by Scottish Pacific Shareholders would likely incur transaction costs, which will be avoided by approving the Scheme.

By exiting their investment in Scottish Pacific, Scottish Pacific Shareholders will not participate in the potential longer term benefits from any future development of the business

Scottish Pacific is well-positioned to capitalise on favourable long term industry fundamentals, such as the possible withdrawal of the remaining major banks from the Debtor Finance industry, the broadening of the customer relationship through complementary products, the potential to participate in further consolidation in the industry and the opportunity for improvement in operating leverage through increased back office efficiency.

By exiting their investment in Scottish Pacific, Scottish Pacific Shareholders will not participate in the potential longer term benefits from any future development of the business (nor be exposed to any of

⁶ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2018, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price



Scottish Pacific's future risks in executing its growth strategy, including the potential effects of having to balance investment and growth opportunities with short-term earnings performance).

No alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low

By announcing the Scheme, Scottish Pacific signalled to the market that it was 'in play', but given the timetable outlined for the Scheme, only for a limited period. At the date of this report, no other party has signalled an interest in Scottish Pacific.

In our view, the existence of a break fee payable under certain circumstances if an alternative proposal is recommended by the Board, is not of a sufficient quantum to dampen the interest of another interested party. As a result, if Scottish Pacific Shareholders do not approve the Scheme, they are unlikely to benefit from an alternative control transaction in the near term.

3.1.3 Other considerations

In forming our opinion, we have also considered a number of other factors, as detailed below, which we do not consider impacts our assessment of the reasonableness of the Scheme, but we consider it necessary for Scottish Pacific Shareholders to be aware of.

The Board and Management have indicated they will vote to approve the Scheme

The Board has unanimously recommended that Scottish Pacific Shareholders vote in favour of the Scheme in the absence of a superior offer and in the event the Independent Expert concludes the Scheme is in the best interests of Scottish Pacific Shareholders. The Board has also indicated they will vote the Scottish Pacific Shares they hold or control in favour of the Scheme.

Management have also advised that they intend to vote in favour of the Scheme.

Commonwealth Bank of Australia, Ellerston Capital Pty Limited and Yarra Funds Management, currently Scottish Pacific's three largest shareholders with a combined interest in Scottish Pacific Shares of approximately 35.4%, have not disclosed whether they will vote to approve the Scheme.

The Scheme will trigger a taxation event

The implementation of the Scheme will trigger a taxation event for Scottish Pacific Shareholders. Section 7 of the Scheme Booklet sets out further detail of the tax consequences of the Scheme for Scottish Pacific Shareholders, which will differ depending on each Scottish Pacific Shareholders' individual circumstances.

Scottish Pacific Shareholders should consider their individual circumstances and where necessary, seek the advice of their own professional adviser in assessing the taxation implications of the Scheme.

One-off transaction costs

Scottish Pacific has estimated total one-off transaction costs in relation to the Scheme to be approximately \$5.4 million on a pre-tax basis, of which approximately \$2.4 million will have been paid, or committed, prior to the Scheme Meeting.

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One-off transaction costs associated with the Scheme primarily relate to adviser, legal and expert fees, as well as other costs associated with the Scheme.

The Scheme is subject to the satisfaction of a number of conditions

There are a number of conditions which if not satisfied will result in the Scheme not being implemented. In particular, approval is required from Australia's FIRB. As it is possible that all conditions may not be satisfied prior to the meeting for Shareholders to approve the Scheme, the Scheme may not be implemented even if Shareholders vote to approve it where a condition cannot ultimately be satisfied and is not otherwise waived.

Further, approval is required by both Scottish Pacific Shareholders and Management Shareholders for the Scheme to be implemented. Whilst Management have indicated they intend to vote to approve the Scheme, if approval from Management Shareholders is not forthcoming, the Scheme will not be implemented even if Scottish Pacific Shareholders vote to approve the Scheme.

If the Scheme is not implemented, Scottish Pacific Shareholders would continue to hold their existing shareholding in Scottish Pacific.

The value of the Scrip Option offered to Management Shareholders is likely to be less than the value of the Scheme Consideration offered to Scottish Pacific Shareholders

HoldCo's only asset will be the shares in Scottish Pacific. Therefore, the value of 100% of HoldCo will be equal to our assessed value of Scottish Pacific, not taking into account any potential specific synergies that may be generated by the Bidder as owner of Scottish Pacific.

Management Shareholders who elect the Scrip Option will receive for 50% of the Scottish Pacific Shares held⁷, one share in HoldCo for each Scottish Pacific Share and for the remaining Scottish Pacific Shares held, \$4.40 in cash per share. The converted shares (if elected) represent a minority interest in an unlisted private company and therefore, the value of the converted shares would reflect both a minority discount and a marketability discount.

We have assessed the value of the Management Scrip Option Consideration to be in the range of \$3.64 to \$4.37 per Scottish Pacific Share, excluding potential specific synergies, as set out in Section 3.2.1 below. Therefore, the value of the Scrip Option is assessed to be less than the value of the Scheme Consideration of \$4.40 offered to Scottish Pacific Shareholders and to Management Shareholders who do not elect the Scrip Option.

⁷ Rounded down to the nearest whole Scottish Pacific Share



3.1.4 Consequences if the Scheme is not approved

In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, Scottish Pacific will continue to operate in its current form and remain listed on the ASX.

As a consequence:

- Scottish Pacific will continue to execute on its strategy as set out in Section 7.4 of this report
- Scottish Pacific Shareholders will not receive the Scheme Consideration and the implications of the Scheme, as summarised above, will not occur, other than with respect to the one-off transaction costs incurred, or committed to, prior to the Scheme Meeting. Scottish Pacific is not liable to pay a break fee if the Scheme fails to be approved by Scottish Pacific Shareholders
- Scottish Pacific Shareholders will continue to be exposed to the benefits and risks associated with an investment in Scottish Pacific, and
- Scottish Pacific's share price will likely fall. The current share price of Scottish Pacific reflects the terms of the Scheme and therefore includes expectation of a control premium. As such, in the absence of the Scheme, an alternative proposal or speculation concerning an alternative proposal, the Scottish Pacific share price is likely to fall to levels consistent with trading prices prior to the announcement of the Scheme.

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3.2 Opinion to Management Shareholders

In our opinion, the Scheme is **in the best interests of Management Shareholders**, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- fair, by comparing the Scheme Consideration and Management Scrip Option Consideration to our assessed value of a Scottish Pacific Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111
- reasonable, by assessing the implications of the Scheme for Management Shareholders, the alternatives to the Scheme which are available to Scottish Pacific and Management Shareholders, and the consequences for Management Shareholders of not approving the Scheme.

Our assessment has concluded that the Scheme is fair and reasonable to Management Shareholders. As such, we have in accordance with RG 111, concluded that the Scheme is in the best interests of Management Shareholders. The commentary in the introduction to Section 3.1 of this report is also relevant to Management Shareholders.

3.2.1 The Scheme is fair to Management Shareholders

Management Shareholders can elect to receive the Scheme Consideration, which falls within our assessed value range for a Scottish Pacific Share

Management Shareholders who do not elect the Scrip Option, will receive the Scheme Consideration of \$4.40 per Scottish Pacific Share. The Scheme Consideration falls within our assessed value range for a Scottish Pacific Share of \$4.24 to \$4.81 as set out in Section 3.1.1 above.

The value of the Management Scrip Option Consideration overlaps with the lower end of our assessed value range for a Scottish Pacific Share without accounting for any available synergies specific to the Bidder

Under the terms of the Scheme, the Management Scrip Option Consideration comprises for 50% of the Scottish Pacific Shares held⁸, one share in HoldCo for each Scottish Pacific Share and for the remaining Scottish Pacific Shares held, \$4.40 in cash per share.

The appropriate regulatory framework requires the share based element of the Management Scrip Option Consideration to be assessed in a manner consistent with the entitlements and restrictions that the issued shares in HoldCo (HoldCo Shares) offer to Management Shareholders. As the HoldCo Shares represent a minority interest in an unlisted private company, the value of the HoldCo Shares should reflect both a minority discount and a marketability discount. However, as detailed in Section 5.1 of this report, the terms applicable to the HoldCo Shares provide Management Shareholders exit opportunities which may offer Management Shareholders the opportunity to realise their interest on a controlling basis at a future point in time.

⁸ Rounded down to the nearest whole Scottish Pacific Share



As a result, we have assessed the value of a HoldCo Share as a range, where the low end of the range is based on the value of a HoldCo Share on a minority basis (including a discount for lack of marketability) and the high end of the range is based on an assumed exit on a controlling basis, whilst acknowledging that a marketability discount remains appropriate.

We note that this range represents a minimum value for a HoldCo Share, as the value range does not include the value of specific synergies that will potentially be realised by the Bidder. Insufficient information on the potential synergies was made available to us to allow a value assessment to be made. However, we consider it reasonable to assume that consistent with transactions generally, the Bidder will not have 'paid away' the majority of potential value it perceives in Scottish Pacific to the existing owners of the business.

We have assessed the value of the Management Scrip Option Consideration to be, at a minimum, in the range of \$3.64 to \$4.37 per Scottish Pacific Share, as set out in the table below.

Table 2: Value of Management Scrip Option Consideration

| \$ (unless otherwise stated) | Section reference | Value range | |
|---|----------------------|-------------|-------|
| | | Low | High |
| Share component of Management Scrip Option Consideration | | | |
| Value per Scottish Pacific Share (on a controlling basis) | 8 | 4.24 | 4.81 |
| Minority and marketability discount ¹ | | (32%) | (10%) |
| Value per converted share ² | | 2.88 | 4.33 |
| Portion of Scrip Option that converts into HoldCo Shares | 5.1 | 50% | 50% |
| Value of share component of Management Scrip Option Consideration | | 1.44 | 2.17 |
| Cash component of Management Scrip Option Consideration | | | |
| Scheme Consideration | 5.1 | 4.40 | 4.40 |
| Portion of Scrip Option that receives Scheme Consideration | 5.1 | 50% | 50% |
| Value of cash component of Management Scrip Option Consideration | | 2.20 | 2.20 |
| Value of Management Scrip Option Consideration | | | |
| Value of share component of Management Scrip Option Consideration | | 1.44 | 2.17 |
| Value of cash component of Management Scrip Option Consideration | | 2.20 | 2.20 |
| Value of Management Scrip Option Consideration | | 3.64 | 4.37 |

Source: KPMG Corporate Finance analysis

Note 1: The discount applied to the low end of our assessed value of a Scottish Pacific Share reflects a minority discount equivalent to the inverse of the upper end of our assessed control premium range of 25% to 40%, combined with a 5% marketability discount

Note 2: The value of a HoldCo Share does not include any value attributable to potential specific synergies which the Bidder may be able to realise

In assessing the value of the Management Scrip Option Consideration, we have:

- applied the cash payment of \$4.40 per Scottish Pacific Share to the 50% of the Management Scrip Option Consideration to be received in cash
- applied a minority discount to the low end of our assessed value of a Scottish Pacific Share of \$4.24 per share on a controlling basis. The minority discount is the inverse of the upper end of our assessed control premium range of 25% to 40% and reflects that Management Shareholders will be receiving a minority interest in HoldCo in return and may not have the opportunity to realise a control value for their HoldCo Shares in the future. This will likely be the case if Management Shareholders were to

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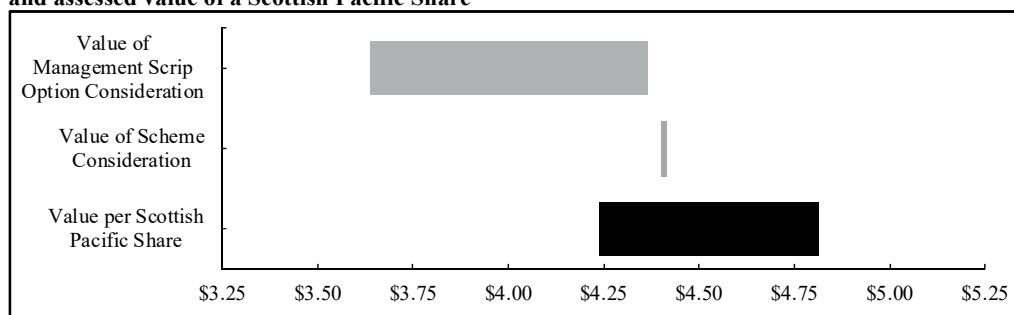
seek to realise their interest at a point in time which does not coincide with an exit event that would enable them to realise their interest on a controlling basis, as we have assumed in determining the high end of our assessed value range for a HoldCo Share

- applied a marketability discount in the range of 5% to 10% to our assessed value range of a Scottish Pacific Share to reflect the restricted circumstances in which Management Shareholders can realise their interest in HoldCo. We applied a higher marketability discount in determining the high end of our assessed value range for a HoldCo Share to reflect that Management Shareholders have limited opportunity and control to realise their interest on a controlling basis relative to realising their interest on a minority basis
- not included any specific synergies that may be realised by the Bidder. However, it is not unreasonable to expect that some specific synergies will be realised by the Bidder and therefore, the assessed value of the Management Scrip Option Consideration represents a minimum value.

Assessment of fairness

A comparison of the Scheme Consideration, our assessed value of the Management Scrip Option Consideration and our assessed value of a Scottish Pacific Share on a control basis, is illustrated below.

Figure 3: Comparison of value of Scheme Consideration, Management Scrip Option Consideration and assessed value of a Scottish Pacific Share



Source: KPMG Corporate Finance analysis

According to RG 111, the Scheme should be considered fair if the consideration offered to Management Shareholders is equal to or higher than our assessed value of a Scottish Pacific Share. As the value of the Scheme Consideration falls within our assessed value range for a Scottish Pacific Share, and the Management Scrip Option Consideration overlaps with the lower end of our assessed value range for a Scottish Pacific Share, with the potential for further value enhancement through the realisation of specific synergies, we consider the Scheme to be fair to Management Shareholders.

3.2.2 The Scheme is reasonable to Management Shareholders

In accordance with RG 111, an offer is reasonable if it is fair. As we consider the Scheme to be fair, this would imply that the Scheme is also reasonable. However, irrespective of the statutory obligation to conclude the Scheme is reasonable, we have considered a range of factors that are relevant to the assessment of the reasonableness of the Scheme to Management Shareholders.

Management Shareholders who elect the Scrip Option will receive an equivalent ownership interest in HoldCo to that which they hold in Scottish Pacific for the 50% of their shareholding converted under the Scheme

On implementation of the Scheme, Management Shareholders who elect the Scrip Option will hold an equivalent interest in HoldCo to that which they currently hold in Scottish Pacific for the 50% of Scottish Pacific Shares that they will convert. The terms of the HoldCo Shares to be issued to Management Shareholders will be different to their current Scottish Pacific Shares, as set out in Section 5.1. We have reflected the value impact of these differences in our assessment of the value of the Management Scrip Option Consideration.

The Scheme provides either a full exit or, under the Scrip Option, a partial exit to Management Shareholders at a price that is certain. However, the continuing equity interest available under the Scrip Option will be in an unlisted investment with limited liquidity

Management Shareholders will realise all or, under the Scrip Option, part of their investment in Scottish Pacific on the same terms to those offered to Scottish Pacific Shareholders, providing an exit from their investment at a price that is certain.

For Management Shareholders who elect the Scrip Option, 50% of their interest held in Scottish Pacific will be converted into shares in HoldCo. Whilst receiving shares in HoldCo will allow Management Shareholders to continue to benefit from the future development of Scottish Pacific, as discussed further below, the shares will carry various restrictions which will limit Management Shareholders' ability to realise their interest in HoldCo as detailed in Section 5.1.

Management Shareholders will have the opportunity to benefit from the future performance of Scottish Pacific

Management Shareholders who elect the Scrip Option will receive shares in HoldCo as part of the Management Consideration. As a result, Management Shareholders will have the opportunity to benefit from the future development of Scottish Pacific, including the potential synergies available as a result of the Bidder's ownership of the business. Of course, Management Shareholders will also be exposed to any impact arising from the risks facing Scottish Pacific as discussed elsewhere in this IER.

Management Shareholders are able to elect the Scheme Consideration if the value of the Management Scrip Option Consideration or the terms applied to the HoldCo Shares issued under the Scrip Option are not acceptable to them

The value of the Management Scrip Option Consideration is less than the value of the Scheme Consideration and the low end of the value range of the Management Scrip Option Consideration is significantly below the low end of our assessed value range for a Scottish Pacific Share. Further, the terms under which Management Shareholders will hold their HoldCo Shares are more restrictive than the terms applicable to the shares in Scottish Pacific currently held by all Shareholders.

As a result, the Scrip Option may not be considered to be an attractive option for Management Shareholders on the basis of the assessment required under RG 111. However, if Management Shareholders do not consider the Scrip Option to be attractive, they have the option to receive the Scheme Consideration and exit their investment in Scottish Pacific.

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However, as continuing members of the management team appointed by the Bidder, the demonstration of commitment to the business by 'rolling over' 50% of their current interest in Scottish Pacific into the new ownership structure, as well as a belief in the specific synergy opportunities that may be available to the Bidder, may provide a compelling reason for Management Shareholders to elect the Scrip Option.

No alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low

The comments in Section 3.1.2 above in relation to the likelihood of an alternative proposal emerging are also relevant to Management Shareholders.

3.2.3 Other considerations

In forming our opinion, we have also considered a number of other factors, as detailed below, which we do not consider impacts our assessment of the reasonableness of the Scheme, but we consider it necessary for Management Shareholders to be aware of.

The Scheme will trigger a taxation event and one-off transaction costs have been incurred

The comments in Section 3.1.3 above in relation to the taxation implication of the Scheme and one-off transaction costs are also relevant to Management Shareholders.

Management Shareholders who elect the Scrip Option may potentially receive 'roll-over relief' whereby the cost base of their Scottish Pacific Shares is carried forward to the newly issued shares in HoldCo and the taxation event deferred until a future date. However, at the date of this IER, there was no certainty that 'roll-over relief' would be available.

The Scheme is subject to the satisfaction of a number of conditions

There are a number of conditions which if not satisfied will result in the Scheme not being implemented. In particular, approval is required from Australia's FIRB. As it is possible that all conditions may not be satisfied prior to the meeting for Shareholders to approve the Scheme, the Scheme may not be implemented even if Shareholders vote to approve it where a condition cannot ultimately be satisfied and is not otherwise waived.

Further, approval is required by both Scottish Pacific Shareholders and Management Shareholders for the Scheme to be implemented. Therefore, if approval from Scottish Pacific Shareholders is not forthcoming, the Scheme will not be implemented even if Management Shareholders vote to approve the Scheme.

If the Scheme is not implemented, Management Shareholders would continue to hold their existing shareholding in Scottish Pacific.

In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, Scottish Pacific will continue to operate in its current form and remain listed on the ASX

The comments in Section 3.1.4 above in relation to the outcomes if the Scheme is not approved are also relevant to Management Shareholders.



4 Other matters

In forming our opinion, we have considered the interests of Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Shareholders. It is not practical or possible to assess the implications of the Scheme on individual Shareholders as their financial circumstances are not known. The decision of Shareholders as to whether or not to approve the Scheme is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our IER has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This IER has been prepared solely for the purpose of assisting Shareholders in considering the Scheme. We do not assume any responsibility or liability to any other party as a result of reliance on this IER for any other purpose.

All currency amounts in this IER are denominated in Australian dollars (\$) unless otherwise stated.

Neither the whole nor any part of this IER or its attachments or any reference thereto may be included in or attached to any document, other than the Scheme Booklet to be sent to Shareholders in relation to the Scheme, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this IER in the form and context in which it appears in the Scheme Booklet.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this IER, including the appendices.

Yours faithfully

Sean Collins
Authorised Representative

Ian Jedlin
Authorised Representative

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5 The Scheme

On 24 September 2018, Scottish Pacific announced that it had entered into the Original SIA with the Bidder, an entity owned by funds managed or advised by Affinity, to acquire 100% of the issued shares of Scottish Pacific. Subsequently, on 24 October 2018, the parties entered into the SIA which amended and replaced the Original SIA.

The Proposed Transaction will be implemented by way of a scheme of arrangement and will result in Scottish Pacific Shares being delisted from the ASX.

5.1 Terms of the Scheme

Under the terms of the Scheme, Scottish Pacific Shareholders will receive the Scheme Consideration, which comprises cash consideration of \$4.40 for each Scottish Pacific Share held on the Scheme Record Date.

Management Shareholders may elect the Scrip Option under the Scheme and receive for 50% of the Scottish Pacific Shares held⁹, one share in HoldCo for each Scottish Pacific Share held and for the remaining Scottish Pacific Shares held, \$4.40 in cash per share. HoldCo is a special purpose company that was incorporated for the purpose of indirectly holding all the shares in the Bidder and issuing HoldCo shares to Management Shareholders who validly elect the Scrip Option. Management Shareholders are defined as a Shareholder, other than a Foreign Shareholder, who is an employee (or an affiliate of an employee) of a member of Scottish Pacific who earns an annual salary of \$200,000 or more.¹⁰ Management Shareholders who do not elect the Scrip Option will receive the Scheme Consideration, consistent with Scottish Pacific Shareholders.

A summary of the key terms of the Investment Deed to be entered into by Management Shareholders who elect the Scrip Option, that relate to the HoldCo Shares, is set out below:¹¹

- HoldCo Shares carry a right to receive dividends, with the dividend policy decided by the HoldCo board
- Management Shareholders cannot dispose of their HoldCo shares without the approval of the HoldCo board unless it is to give effect to an Exit¹², or pursuant to tag-along or drag-along provisions
- HoldCo Shares may be required to be compulsorily transferred, bought back or cancelled at the request of the HoldCo board, at either cost or Market Value as determined by the HoldCo board, and
- Management Shareholders will be subject to non-compete, non-poach and non-solicitation obligations for a period of up to 24 months from the date the Management Shareholder ceases employment with Scottish Pacific.

⁹ Rounded down to the nearest whole Scottish Pacific Share

¹⁰ The individuals that meet the definition of Management Shareholders are listed in Table 14 with their respective shareholdings

¹¹ This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of holders of HoldCo Shares

¹² Exit is defined as an Asset Sale, a Trade Sale or an IPO



A condition of the Scheme is that all options are cancelled prior to the implementation of the Scheme in exchange for a cash payment from Scottish Pacific equivalent to the Scheme Consideration that the relevant holder would have received had the option been validly exercised or converted prior to the Scheme Meeting, less the relevant exercise price.

5.2 Conditions of the Scheme

The Scheme will not proceed unless each of the conditions precedent set out in the SIA is satisfied or waived (if applicable). The notable conditions precedent include:

- Regulatory approvals: receipt of approvals, consents or relief from regulatory authorities (including ASIC, ASX, FIRB and certain other foreign regulatory bodies) is received
- Shareholder approval: Shareholders approve the Scheme at the Scheme Meeting by the Requisite Majorities
- Court approval: the Court approves the Scheme in accordance with section 411(4)(b) of the Act
- No prohibitive orders: no order, temporary restraining order, preliminary or permanent injunction, decree or ruling or action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Scheme is issued by regulatory authorities or the Court
- No Material Adverse Effect: no Material Adverse Effect (defined as a specified event which has resulted in, or is likely to result in a diminution in consolidated net assets by at least \$20.6 million or a reduction in profit before interest, tax, depreciation and amortisation by at least \$7.2 million in FY19 and/or FY20)
- No Prescribed Event: no Scottish Pacific Prescribed Event (which includes changes to share capital, declaration of dividends, disposal of business or property, amongst other things), has occurred
- Scottish Pacific entering into arrangements that provide for the cancellation of all Scottish Pacific options, with that cancellation subject only to the Court approving the Scheme and the Scheme becoming effective
- Change of control consents: receipt of change of control consents under certain Scottish Pacific warehouse facilities, and
- Representations and warranties: the representations and warranties given by Scottish Pacific are true and correct in all material respects as at the date of the SIA and as at 8.00am on the Second Court Date.

As at the date of this report, Scottish Pacific is not aware of any reason why the conditions precedent will not be satisfied.

5.3 Transaction costs

Scottish Pacific management has estimated total one-off transaction costs in relation to the Scheme to be approximately \$5.4 million on a pre-tax basis, of which approximately \$2.4 million will have been paid, or committed, prior to the Scheme Meeting.

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One-off transaction costs associated with the Scheme primarily relate to adviser, legal and expert fees, and other costs associated with the Scheme.

5.4 Break fees

Should the Scheme not proceed due to certain circumstances, a break fee of \$6.1 million would be payable by Scottish Pacific to the Bidder. The break fee represents compensation for advisory costs, costs of management and directors' time, out-of-pocket expenses and reasonable opportunity costs incurred by the Bidder in pursuing the Scheme.

The circumstances under which the break fee would be payable by Scottish Pacific include the completion by Scottish Pacific of a competing transaction or any Director failing to recommend the Scheme. Full details of when the break fee is payable are described in Section 3.7 of the Scheme Booklet.

Should the Scheme not proceed because Scottish Pacific validly terminates the SIA, a reverse break fee of \$6.1 million would be payable by the Bidder to Scottish Pacific.

No break fee or reverse break fee is payable if the Scheme is completed.

5.5 Other terms

The SIA also contains customary exclusivity provisions, including no shop and no talk restrictions, a notification obligation and a matching right, all subject to Scottish Pacific Directors' fiduciary obligations.



6 Scope of the report

6.1 Purpose

The Board has requested KPMG Corporate Finance to prepare a report in accordance with Section 412 of the Act and the guidance provided by ASIC.

Section 412(1) of the Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 Schedule 8 of the Corporations Regulations specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company, or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

Even where an independent expert's report is not strictly required by the law (as is the situation with respect to the Scheme), it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

This IER is to be included in the Scheme Booklet to be sent to Shareholders and has been prepared for the purpose of assisting the Shareholders in their consideration of the Scheme.

6.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by ASIC, indicates the principles and matters which it expects a person preparing an independent expert report to consider. RG 111 distinguishes between the analysis required for control transactions and other transactions.

RG 111.18 states that where a scheme of arrangement is used as an alternative to a takeover bid, the form of analysis undertaken by the expert to determine whether the scheme is 'in the best interests of the members of the company' should be substantially the same as for a takeover bid. That form of analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- an offer is 'reasonable' if it is 'fair', and

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- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of Scottish Pacific, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Scottish Pacific. As such, we have not included the value of special benefits that may be unique to funds managed or advised by Affinity. Accordingly, our valuation of Scottish Pacific has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder's pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity and volatility of the market in the target's shares
- any special value of the target to the bidder
- the likely market price of the target's shares in the absence of the offer
- the likelihood of an alternative offer being made, and
- any other advantages, disadvantages and risks associated with accepting the offer.

RG 111.20 states that if an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is 'in the best interests' of the members of the company. Further, RG 111.21 states that if an expert would conclude that the proposal was 'not fair but reasonable' it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'.

In forming our opinion, we have considered the interests of Scottish Pacific Shareholders as a whole. As an individual Shareholder's decision to vote for or against the proposed resolutions may be influenced by their particular circumstances, we recommend they each consult their own financial advisor.

6.3 Limitations and reliance on information

In preparing this IER and arriving at our opinion, we have considered the information detailed in Appendix 2. In forming our opinion, we have relied upon the truth, accuracy and completeness of any



information provided or made available to us without independently verifying it. Nothing in this IER should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Scottish Pacific for the purposes of this IER.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with Scottish Pacific's management in relation to the nature of Scottish Pacific's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Scottish Pacific has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this IER should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Scottish Pacific, including a financial model (Financial Model) for FY19 to FY21. KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this IER and Scottish Pacific remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information or tested the mathematical integrity of the Financial Model.

KPMG Corporate Finance has undertaken various enquiries in relation to the Financial Model, including holding discussions with Management in regard to the commercial assumptions underlying the Financial Model. We have reviewed the key commercial assumptions in the context of current economic, financial and other conditions (e.g. regulatory, contractual). KPMG Corporate Finance is of the view that the forward-looking information has been prepared on a reasonable basis and, therefore, is suitable as a basis for our valuation.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and

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beyond the scope of this IER. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this IER. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our IER for events or circumstances arising after the date of this IER other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this IER, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Scottish Pacific has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of Scottish Pacific. As such, the information in this IER has been limited to the type of information that is regularly placed into the public domain by Scottish Pacific.

7 Profile of Scottish Pacific

7.1 Background

Scottish Pacific is a leading specialist business finance provider in Australia, providing working capital solutions to SMEs operating in Australia, New Zealand and the United Kingdom (UK). Scottish Pacific's core business is in the provision of Debtor Finance, through both invoice discounting (Discounting) and debtor factoring (Factoring) products. It has recently broadened its product offering to include Specialised Finance products, which are complementary to its core Debtor Finance products.

Tracing its origins back to 1988, Scottish Pacific in its current form was created by the merger of Scottish Pacific and Benchmark Debtor Finance, in 2007. After being acquired by a consortium led by Next Capital in 2013, Scottish Pacific built both its product portfolio and client base through several acquisitions from late 2015 to early 2017. Most notable were the acquisitions of Bibby Financial Services Australia Pty Ltd (Bibby), the Australian and New Zealand operations of the UK based Bibby Financial Services Limited (Bibby UK), and the Debtor Finance portfolio clients of both GE Finance and Suncorp. Scottish Pacific currently employs close to 300 staff to service more than 1,600 Clients, with an average exposure per Client of over \$600k.

In July 2016, Scottish Pacific was listed on the ASX, with a market capitalisation at the time of the IPO of \$445.4 million (at an offer price of \$3.20 per share).

Table 3: Corporate history

| Year | Event |
|----------|--|
| 1988 | Mercantile Credits divests Hallmark Business Finance |
| 1990 | Bank of Scotland purchases majority holding in Hallmark Business Finance, and renames it Scottish Pacific Business Finance |
| 1992 | Scottish Pacific Business Finance commences NZ operations |
| 1997 | Former management purchases Scottish Pacific Business Finance from Bank of Scotland and runs it independently |
| 1998 | Benchmark Debtor Finance establishes in Perth under current Scottish Pacific CEO (Peter Langham) |
| 2002 | St. George acquires Scottish Pacific Business Finance; Benchmark Debtor Finance established in Melbourne |
| 2003 | Benchmark Debtor Finance established in Sydney |
| 2005 | Allfinance Benchmark Holding Trust acquires Benchmark Debtor Finance |
| 2006 | St. George restructures Scottish Pacific Business Finance, leaving only factoring clients under the brand |
| 2007 | Allfinance Benchmark Holding Trust acquires Scottish Pacific Business Finance, and renames merged entity Scottish Pacific |
| 2010 | Lazard Australia Private Equity acquires a controlling stake in Scottish Pacific |
| 2013 | Next Capital acquires Scottish Pacific |
| Dec 2015 | Scottish Pacific acquires Bibby |
| May 2016 | Scottish Pacific acquires Debtor Finance portfolio clients from GE Finance and Suncorp |
| Jul 2016 | Scottish Pacific lists on the ASX |
| Jan 2017 | Scottish Pacific acquires Sterling Trade Finance to expand UK business |
| Sep 2018 | Scottish Pacific announces the SIA for Affinity to acquire 100% of the business |

Source: Scottish Pacific prospectus and annual reports

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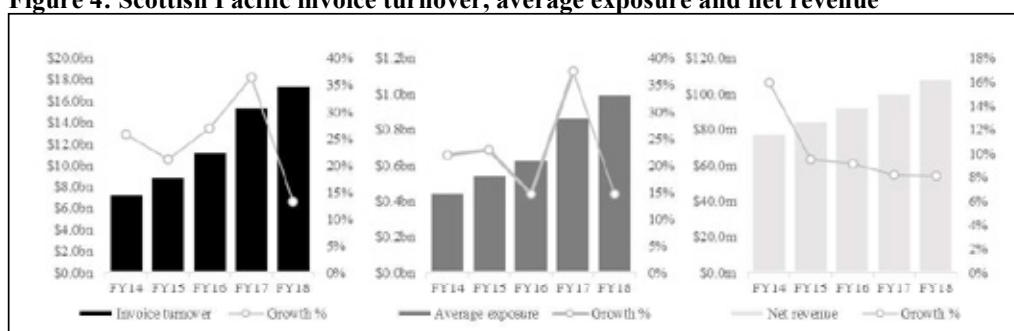
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7.2 Business operations

7.2.1 Overview

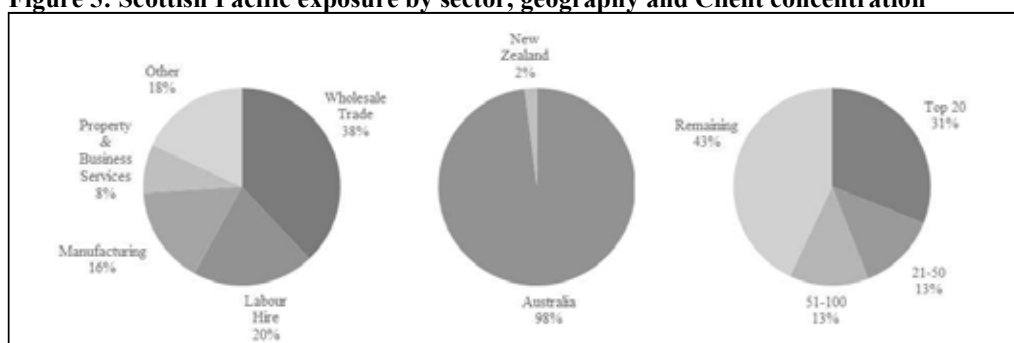
Scottish Pacific’s principal activities involve the provision of Debtor Finance and Specialised Finance products to SMEs. Whilst Debtor Finance accounts for over 90% of total loan exposure in FY18¹³, the Specialised Finance business offers significant growth potential and as a complementary set of products, is an important offering to secure and retain Debtor Finance Clients.

Figure 4: Scottish Pacific invoice turnover, average exposure and net revenue¹⁴



Source: Scottish Pacific annual reports and presentations

Figure 5: Scottish Pacific exposure by sector, geography and Client concentration



Source: Scottish Pacific yearly presentations

Scottish Pacific’s business model is centred around the following key elements:

- **Distribution:** sourcing Clients through a broad, diversified distribution network
- **Client Service:** maintaining high Client satisfaction through a high-touch service model

¹³ Scottish Pacific FY18 Annual Report

¹⁴ Invoice turnover is the value of invoices sold to Scottish Pacific by Clients. Exposure is the value of funding to the Client by Scottish Pacific. Net revenue is the total of management fees and net interest income generated by Scottish Pacific on total invoice turnover and the average exposure provided

- *Product and Service Offering*: providing working capital solutions through a core Debtor Finance product and complementary adjacent Specialised Finance products
- *Funding*: utilising various full and limited recourse funding sources to ensure sufficient and efficient funding is available to support its growing operations, and
- *Risk Management*: employing disciplined risk assessment, underwriting procedures and ongoing operational monitoring to manage Client exposures.

Each of these elements are discussed below.

7.2.2 Distribution

Scottish Pacific primarily sources new Client origination through an extensive and well-established distribution network, which comprises:

- a referral network that includes brokers, accountants, insolvency practitioners and past/current Clients, which accounts for approximately 55% of new Client origination
- a direct-to-market channel, including a developing internet platform and traditional marketing initiatives, which accounts for approximately 20% of new Client origination and is expected to generate more than 30% on a sustained basis over time
- a wholesale referral network of banks and other financial institutions (including the Suncorp and Australia and New Zealand Banking Group arrangements), which accounts for approximately 12% of new Client origination, and
- staff and other referral sources which account for the balance of new Client origination.

With Client attrition expected to remain at FY18 levels of approximately 20% per annum, a broad distribution network is critical to maintaining and growing Client numbers. As replication of this network is difficult and costly to achieve, Management consider it a key competitive advantage and a high barrier to entry for new market participants to overcome.

7.2.3 Client service

Scottish Pacific focuses on maximising the 'customer experience', adopting a high-touch service model which encourages frequent interactions with both Clients and their debtors, as well as maintaining a low Client-to-Client Relationship Manager ratio. The high-touch model allows Scottish Pacific to better understand a Client's needs and provide appropriately tailored solutions. The high frequency of Client interaction also supports Scottish Pacific's underwriting, assessment and risk monitoring processes, contributing to a declining trend in credit losses.

7.2.4 Product and service offering

Debtor Finance

Debtor Finance is a form of financing in which a Client assigns their receivables to a Debtor Finance provider. A cash advance may be made to the Client to assist in bridging the working capital deficit

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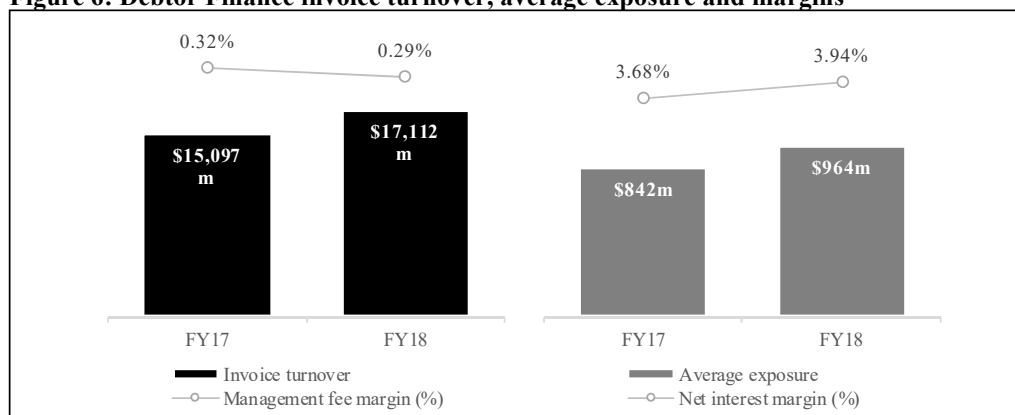
created by the delay between incurring expenses in providing goods and services to their customers and the receipt of payment for those goods and services.

Security for the cash advanced is provided by the Client's total debtor book, as opposed to the real estate security required by many traditional lenders.

Scottish Pacific offers both Discounting (50.1% of total exposure in FY18) and Factoring (49.9%) products. Both products involve the assignment of receivables to Scottish Pacific in exchange for funding, with the major differences being the extent of disclosure of the financing arrangement to the underlying debtors and the level of involvement in the collections process by the Debtor Financier. Discounting is typically not disclosed to the debtor, while under a Factoring arrangement, debtors are made aware of Scottish Pacific's involvement and there is direct contact between Scottish Pacific and the debtor during the collection process.

Scottish Pacific generates revenue from its Debtor Finance products in the form of management fees and net interest income. Management fees are charged on establishing and maintaining the Debtor Finance facility, and include administration fees and expense recoveries from Clients. Net interest income is derived from the interest earned on the amounts drawn down by Clients, offset by the funding costs of Scottish Pacific's various funding sources.

Figure 6: Debtor Finance invoice turnover, average exposure and margins



Source: Scottish Pacific yearly presentations

Specialised Finance

The Specialised Finance business incorporates Scottish Pacific's non-Debtor Finance specific products, including Trade Finance, Asset Backed Lending and a range of other complementary products. Specialised Finance products are typically offered in conjunction with a Debtor Finance product in order to improve Client retention rates and assist with new Client origination. The proportion of Debtor Finance customers also having a Specialised Finance product has increased from 9% in FY17 to 13% in FY18¹⁵.

¹⁵ Scottish Pacific FY18 Results Presentation



Trade Finance

Trade Finance includes Scottish Pacific's Import and Export Finance businesses, as well as its Tradeline product. With the exception of Scottish Pacific's Trade Finance portfolio in the UK, which resulted from the acquisition of Sterling Trade Finance, these products are also funded through Scottish Pacific's limited-recourse funding vehicles. Scottish Pacific's Trade Finance business in the UK produced \$0.8 million in net revenue in FY18, down 15.3% from the \$1.0 million net revenue in FY17¹⁶.

Import Finance is designed to assist businesses who operate domestically across Australia and New Zealand, and who source finished products from overseas. It is offered as an extension product to existing domestic Debtor Finance facilities and allows the cash advance to be provided at the time goods are imported rather than when the goods are sold. This effectively extends the financing period to match the working capital cycle of an import business, with the initial Import Finance facility transitioning to a Debtor Finance facility once invoices have been raised.

Export Finance offers advanced funding similar to a Debtor Finance product, but allows the funding to be advanced against invoices to overseas customers. The Export Finance product is also offered as an extension to existing domestic Debtor Finance facilities, although only a maximum of 30% of total invoices supporting the facility can be overseas invoices.

Tradeline is an unsecured import finance and buying facility available to international traders. Under the facility, Scottish Pacific purchases goods from an overseas supplier on behalf of a domestic importer Client under set credit terms. Each Tradeline facility is backed by insurance.

Other Debtor Finance products

Other Debtor Finance products offered by Scottish Pacific include:

- Progress Claim Finance – a Debtor Finance solution for businesses that engage in contractual type arrangements
- Bad Debt Protected Facilities – Debtor Finance facilities where Scottish Pacific agrees not to recoup most of the cost of bad debts in exchange for an agreed fee, and
- Selective Invoice Financing – a flexible Debtor Finance facility where funding is provided against individual invoices or debtors rather than entire debtor books.

New products

Scottish Pacific has recently established a number of new products, including:

- Asset Finance – allowing Clients to increase their facility size by providing other assets (e.g. inventory and equipment) as security in addition to their debtor book
- Cashline – a flexible facility providing an alternative to a traditional bank overdraft facility, and

¹⁶ Scottish Pacific FY18 Results Presentation

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- Corporate Credit Line – a flexible facility that provides an alternative to a traditional revolving line of credit.

The fee structures for Scottish Pacific’s Specialised Finance products are similar to Debtor Finance in that a management fee and interest rate are charged on Client facilities. However, not all Specialised Finance products can currently be funded through Scottish Pacific’s limited recourse funding vehicles, with the products being funded through Scottish Pacific’s own equity or its corporate borrowing facilities. As a result, the overall net interest margin for Specialised Finance products is impacted negatively by the higher costs of funding.

Figure 7: Specialised Finance management fees and net interest income



Source: Scottish Pacific FY18 annual report

7.2.5 Funding

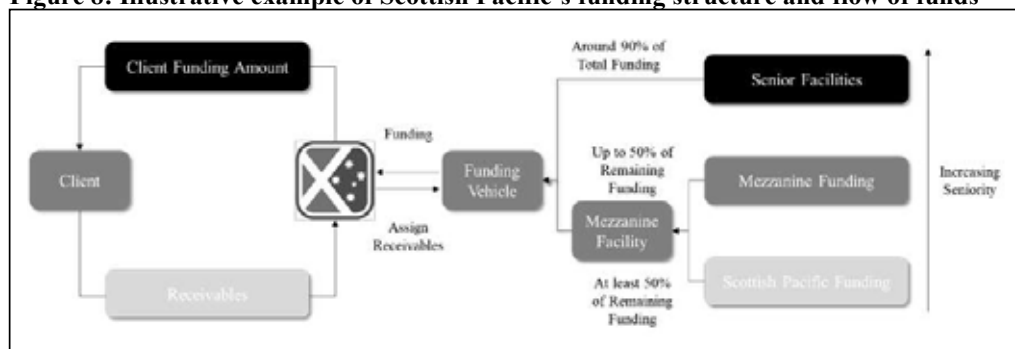
Scottish Pacific obtains its funding from a mix of full and limited recourse facilities, including senior facilities, a mezzanine facility, a corporate debt facility and surplus cash generated from normal business operations.

The senior facilities comprise four warehouse special purpose vehicles through which third party funders provide limited recourse financing into Scottish Pacific’s funding vehicle (Funding Vehicle). These facilities are asset backed by the purchased receivables, are non-recourse to Scottish Pacific and are funded by a selection of domestic and international banks.

The mezzanine facility provides credit enhancement to the senior facilities by providing ‘first loss’ capital to the Funding Vehicle. The mezzanine facility is funded by wholesale capital markets and Scottish Pacific, with Scottish Pacific purchasing junior notes subordinated to the external mezzanine lenders.

The corporate debt facility is a revolving facility used to fund general corporate activity, as well as to support Specialised Finance products that do not meet the relevant lending criteria of the Funding Vehicle.

Figure 8: Illustrative example of Scottish Pacific's funding structure and flow of funds



Source: Scottish Pacific prospectus

The Funding Vehicle funds the majority of Scottish Pacific's lending activity through the following process:

- Clients sell receivables to Scottish Pacific and in return, Scottish Pacific may provide a cash advance, which is limited to a portion of the face value of allowable receivables (typically between 80% and 85% of approved receivables)
- Scottish Pacific in turn sells the receivables to the Funding Vehicle, provided they meet the relevant lending criteria of the various underlying senior facilities
- the senior facilities typically fund up to 90% of the cash advanced to the Client
- the mezzanine facility funds the balance of the cash advance, with up to 50% of the remaining amount being funded by the external mezzanine lenders. The balance is funded by Scottish Pacific, which means that Scottish Pacific operates a low capital model at around 5% of the total Client exposure
- when the underlying debtors pay the invoices, money flows through the Funding Vehicle with the senior facility being repaid first, followed by the external funders in the mezzanine facility, with Scottish Pacific receiving the residual income, and
- once all interest and fees have been deducted, the remaining funds are returned to the Client.

Table 4: Scottish Pacific's financing facilities

| As at 31-Aug-18 | | | | |
|--|--------|----------------|----------------|--------------------|
| \$m | Expiry | Total facility | Amount drawn | Available facility |
| Major bank 1 (AU/NZ) | Aug-19 | 709.0 | - | - |
| Major bank 2 (AU/NZ) | Jun-19 | 275.0 | - | - |
| Global investment bank | May-20 | 350.0 | - | - |
| Total senior facilities | | 1,334.0 | 1,099.0 | 235.0 |
| Mezzanine facility | Aug-21 | 60.0 | 50.0 | 10.0 |
| Total limited recourse facilities | | 1,394.0 | 1,149.0 | 245.0 |
| Corporate debt | Aug-21 | 120.0 | 70.0 | 50.0 |
| Total financial facilities | | 1,514.0 | 1,219.0 | 295.0 |

Source: Scottish Pacific FY18 annual report, Scheme Booklet and August 2018 management accounts

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Scottish Pacific’s current facilities have approximately \$235 million in undrawn funding capacity at 31 August 2018, allowing for significant growth in exposure before alternative funding arrangements are required. Refinancing of the majority of current facilities is required in mid-2019.

Scottish Pacific treats the senior and mezzanine facilities as working capital, with the corporate debt treated as external interest bearing liabilities.

7.2.6 Risk management

Scottish Pacific’s underwriting and risk management model is characterised by a high level of collateral and the credit exposure to the underlying debtors supplemented with recourse to the Client. Core tenets in the risk assessment, such as strict risk limits, separation of sales and credit risk functions, security of funding and a diversified portfolio has contributed to Scottish Pacific experiencing low levels of credit losses throughout the economic cycle.

Figure 9: Scottish Pacific Client receivables and bad and doubtful debts expense



Source: Scottish Pacific yearly presentations

As a result of ongoing low historic losses, Scottish Pacific adjusted its provision for Bad and Doubtful Debts down by \$1.1 million in FY18 to establish general provisioning at a “through the cycle” level of 0.30%¹⁷ of total exposure.

Credit approval process

Scottish Pacific screens all prospective Clients to determine whether they are suitable for Debtor Finance, preferring businesses where goods or services are sold on defined credit terms, with low loss ratios and a relatively low risk of sales returns or disputes. As a result, approved Clients are often involved in the manufacturing, wholesale trade, labour hire or other similar industries.

Prospective Clients provide a comprehensive set of financial information which is reviewed by Scottish Pacific’s operational staff, with defined escalation procedures to ensure larger funding requests are reviewed by appropriately experienced personnel. Once approved, Scottish Pacific will typically initially

¹⁷ Scottish Pacific FY18 Annual Report



offer all new Clients a Factoring facility to allow increased flexibility and control over administration and collections for an initial period, before moving to a Discounting facility once Clients satisfy additional risk assessment criteria.

After facilities have been established, Client debtor books will undergo several assessments, including a bona fide assessment (against fraud risk), a verbal verification assessment and a concentration limit assessment to ensure debtor books are not overexposed to any one industry or any one debtor. Following this assessment process, individual invoices are approved or disqualified on an ongoing basis, with Scottish Pacific only advancing funds against approved invoices. Scottish Pacific retains full recourse to the Clients' entire debtor book, including disqualified invoices.

Over-collateralisation

The key tenet of Scottish Pacific's risk management process is to ensure it maintains a level of security substantially above the amount of funding provided to its Clients. This allows Scottish Pacific to absorb individual debtor defaults or dilutions through the excess security, rather than at the 'first loss' level of the Funding Vehicle.

Scottish Pacific provides funding against approved invoices, which has typically amounted to around 84% of the total assigned invoices being approved for funding. Total funding is then limited to only 70% to 80% of the face value of the approved invoices. As a result, Scottish Pacific maintained a loan-to-value ratio (LVR) of 54.7% in FY18 (54.9% in FY17)¹⁸.

Credit risk to underlying debtors

Scottish Pacific's credit exposure is principally to its Clients' underlying debtors, which as a result of its Client assessment procedures is a diverse pool of corporates, including blue-chip companies such as Woolworths, Coles, and Telstra. Given Scottish Pacific's Client base is around 1,600 clients, each one with a variety of debtors, Scottish Pacific's credit exposure is diversified, with concentration risk actively managed.

In addition to security held over a Client's debtor book, Scottish Pacific typically takes a charge over the business assets of the Client.

7.3 Financial summary

7.3.1 Financial performance

Scottish Pacific's audited historical consolidated statements of financial performance for FY16, FY17 and FY18 are summarised below. Significant items identified in determining Scottish Pacific's underlying net profit after tax before amortisation (NPATA) are discussed in the following table.

¹⁸ Scottish Pacific FY18 Results Presentation

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Table 5: Scottish Pacific consolidated statement of financial performance

| For the year ended | 30-Jun-16 | 30-Jun-17 | 30-Jun-18 |
|-----------------------------------|-------------|--------------|--------------|
| \$m | Actual | Actual | Actual |
| Invoice turnover | 11,300 | 15,425 | 17,467 |
| Average exposure | 633 | 871 | 998 |
| Revenue | | | |
| Management fees | 48.1 | 68.1 | 69.9 |
| Interest Income | 47.6 | 67.9 | 78.9 |
| Interest Expense | (22.5) | (35.7) | (40.2) |
| Net interest income | 25.1 | 32.2 | 38.7 |
| Net revenue | 73.2 | 100.3 | 108.6 |
| Expenses | | | |
| Employee benefits expense | (27.7) | (33.8) | (37.8) |
| Office and administration expense | (12.9) | (14.7) | (16.4) |
| Professional fees | (20.7) | (11.4) | (1.3) |
| Bad and doubtful debts expense | (2.3) | (1.1) | 0.1 |
| EBITDA | 9.7 | 39.3 | 53.2 |
| Depreciation and amortisation | (3.0) | (6.6) | (6.7) |
| EBIT | 6.7 | 32.8 | 46.5 |
| Borrowing costs | (6.2) | (5.3) | (5.2) |
| PBT | 0.5 | 27.5 | 41.3 |
| Income tax expense | (0.4) | (7.1) | (8.0) |
| Statutory NPAT | 0.1 | 20.4 | 33.3 |
| Significant items | 20.8 | 4.8 | (3.6) |
| Underlying NPAT | 20.9 | 25.3 | 29.7 |
| Acquisition amortisation | 2.1 | 4.1 | 4.1 |
| Underlying NPATA | 23.1 | 29.4 | 33.8 |
| Ratios | | | |
| Management fee margin | 0.43% | 0.44% | 0.40% |
| Net interest margin | 4.0% | 3.7% | 3.9% |
| Net revenue margin | 11.6% | 11.5% | 10.9% |
| EBITDA margin | 13.3% | 39.2% | 49.0% |
| EBIT margin | 9.2% | 32.7% | 42.8% |
| Statutory NPAT margin | 0.1% | 20.4% | 30.7% |
| Underlying NPAT margin | 28.5% | 25.2% | 27.4% |
| Underlying NPATA margin | 31.5% | 29.3% | 31.1% |
| Cost to income ratio | 57.5% | 52.5% | 50.2% |

Source: Scottish Pacific annual reports and yearly presentations

Note: Figures may not sum due to rounding

In relation to Scottish Pacific's financial performance, we note:

- net revenue grew at a compound annual growth rate (CAGR) of 20.5% from \$73.2 million in FY16 to \$108.6 million in FY18. Growth in FY17 was driven primarily by the acquisition of Bibby and the Debtor Finance portfolio clients of GE Finance and Suncorp, with invoice turnover growing by 36.5% and average exposure growing by 37.6% in FY17. Net revenue continued to grow in FY18, increasing by 8.3% from \$100.3 million in FY17 to \$108.6 million in FY18, driven primarily by growth in net interest income of 20.3% as average loan exposure increased. However, net revenue



margin dropped 0.6% from 11.5% in FY17 to 10.9% in FY18 reflecting the volume-margin trade-off when writing larger facilities

- operating expenses improved by \$8.1 million or 12.8% from FY16 to FY18, driven by a decrease in once-off professional costs incurred as a result of transaction and restructuring activities. This was partially offset by an increase in employee benefits expense of \$10.1 million or 36.6% over the same period as short term incentives were paid out and additional staff were taken on
- bad and doubtful debts had an overall recovery of \$0.1 million in FY18 as a result of a \$1.1 million downward adjustment as the provision for bad and doubtful debts was lowered to 0.30%, reflecting Management's view that historically low loss rates were sustainable and in accordance with financial reporting standards
- acquisition amortisation refers to a non-cash amortisation charge relating to finite life customer relationship intangible assets that were recognised as part of acquisitions undertaken by Scottish Pacific. It is removed in determining underlying NPATA to better reflect maintainable earnings and to present a more comparable measure of performance year-on-year, and
- after adjusting for significant items, which are discussed below, underlying NPAT grew at a CAGR of 17.0% from FY16 to FY18 and underlying NPATA grew at a CAGR of 19.0% over the same period.

Table 6: Significant items

| For the year ended | | 30-Jun-16 | 30-Jun-17 | 30-Jun-18 |
|--------------------------------------|-------|-------------|------------|--------------|
| \$m | Notes | Actual | Actual | Actual |
| Offer costs | 1 | 2.1 | 8.9 | |
| Bibby acquisition | 2 | 9.6 | | |
| Bibby unused line fee | 3 | 0.6 | | |
| Customer Administration System costs | 4 | | | 0.6 |
| Consolidation adjustments | 5 | | | 0.5 |
| Transaction and restructuring costs | 6 | 19.5 | | |
| Incremental public company costs | 7 | (1.5) | | |
| Bonus adjustment | 8 | (1.0) | | |
| Change in corporate debt structure | 9 | 2.8 | | |
| New mezzanine funding | 10 | (2.4) | | |
| Tax effect adjustments | 11 | (8.7) | (4.1) | (4.7) |
| Total NPAT adjustments | | 20.8 | 4.8 | (3.6) |

Source: Scottish Pacific annual reports and yearly presentations, KPMG Corporate Finance analysis

Note: Figures may not sum due to rounding

In relation to the significant items, we note:

- 1 *offer costs* relate to transaction costs incurred as a result of the IPO and listing on the ASX in July 2016
- 2 *Bibby acquisition* relates to one-off transaction costs incurred in the acquisition of the Australian and New Zealand operations of Bibby UK

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- 3 *Bibby unused line fee* relates to the cost of breaking existing Bibby funding arrangements after new whole of business funding arrangements were created post the acquisition of Bibby and the Debtor Finance portfolio clients of GE Finance and Suncorp
- 4 *Customer Administration System costs* relate to direct costs incurred in migrating data from various unique IT systems utilised by the acquired entities onto a single Scottish Pacific system
- 5 *consolidation adjustments* relate to a correction for an error discovered after the migration of the IT systems noted above
- 6 *transaction and restructuring costs* relate to the acquisition of the Debtor Finance portfolio clients of GE Finance and Suncorp, as well as restructuring and integration costs relating to the acquisition of Bibby (e.g. early termination of premises leases, staff redundancy payments, and IT restructuring)
- 7 *incremental public company costs* relate to the indicative annual costs that Scottish Pacific would have incurred if it were a listed public entity during these periods. These expenses reflect Directors' remuneration, listing fees, share registry fees, Directors' and Officers' insurance premiums, annual general meeting costs, and other public company costs. These expenses amounted to \$1.7 million in FY17 and \$1.8 million in FY18
- 8 *bonus adjustment* relates to the reversal of an accrual that was incorrectly raised in FY15 and subsequently released in FY16
- 9 *change in corporate debt structure* relates to one-off costs incurred in rearranging Scottish Pacific's corporate debt facility post the acquisition of Bibby and the Debtor Finance portfolio clients of GE Finance and Suncorp
- 10 *new mezzanine funding* relates to the one-off costs incurred in introducing mezzanine funding into Scottish Pacific's funding mix, and
- 11 *tax effect adjustments* relate to tax refunds in relation to costs incurred as a result of the IPO that were subsequently deemed by the Australian Tax Office to be tax deductible.

7.3.2 Financial position

Scottish Pacific's audited historical consolidated statements of financial position, incorporating the non-recourse Funding Vehicle, as at 30 June 2016, 2017 and 2018 are summarised below.

Table 7: Scottish Pacific consolidated statement of financial position

| As at \$m | 30-Jun-16 Actual | 30-Jun-17 Actual | 30-Jun-18 Actual |
|---------------------------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | 16.1 | 21.8 | 14.2 |
| Restricted cash | 129.3 | 146.6 | 122.8 |
| Client receivables | 745.7 | 830.1 | 1,018.6 |
| Other receivables | 6.5 | 3.1 | 2.5 |
| Current tax asset | 1.1 | 1.8 | - |
| Deferred tax | 5.4 | 8.5 | 7.9 |
| Property, plant and equipment | 2.1 | 1.8 | 1.3 |
| Intangibles | 14.4 | 8.6 | 4.0 |
| Goodwill | 148.3 | 148.6 | 148.6 |
| Total assets | 1,068.8 | 1,170.9 | 1,319.9 |
| Liabilities | | | |
| Trade and other payables | 25.2 | 10.3 | 10.5 |
| Current tax payables | - | - | 0.5 |
| Provisions | 4.2 | 4.4 | 4.9 |
| Debt facilities | 812.6 | 904.4 | 1,042.0 |
| Borrowings | 63.7 | 55.1 | 55.3 |
| Total liabilities | 905.7 | 974.2 | 1,113.3 |
| Net assets | 163.1 | 196.8 | 206.6 |
| Equity | | | |
| Issued capital | 146.1 | 207.0 | 207.0 |
| Reserves | 1.0 | 0.8 | 1.7 |
| Retained profits/(accumulated losses) | 16.0 | (11.0) | (2.0) |
| Total equity | 163.1 | 196.8 | 206.6 |

Source: Scottish Pacific annual reports and yearly presentations

Note: Figures may not sum due to rounding

In relation to Scottish Pacific's financial position, we note:

- Cash and cash equivalents decreased 34.9% from \$21.8 million in FY17 to \$14.2 million in FY18, in part reflecting funding support for new products and Client facilities not funded by the Funding Vehicle
- Client receivables increased 22.7% from \$830.1 million in FY17 to \$1,018.6 million in FY18 (compared to 11.3% growth in FY17), reflecting continued growth in Scottish Pacific's average Client exposure and average overall exposure
- Debt facilities and Restricted cash reflects the Funding Vehicle net debt position, which increased 21.3% from \$757.8 million in FY17 to \$919.2 million in FY18 (compared to 10.9% growth in FY17), in-line with the growth in Client receivables
- Borrowings totalled \$55.3 million in FY18 (\$59.0 million in drawn down debt and \$3.7 million in unamortised borrowing costs). The available cash balance of \$14.2 million is required for working capital purposes and therefore is not offset against drawn down debt in calculating net debt

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- Issued capital increased 41.7% from \$146.1 million in FY16 to \$207.0 million in FY17 as a result of the IPO (after transaction costs), and
- Retained profits decreased \$27.0 million from a retained profit balance of \$16.0 million in FY16 to an accumulated losses balance of \$11.0 million in FY17, driven primarily by the dividend paid in respect of the IPO, totalling \$36.3 million.

Scottish Pacific's audited historical consolidated statements of financial position, excluding the non-recourse Funding Vehicle, as at 30 June 2016, 2017 and 2018 are summarised below.

Table 8: Scottish Pacific consolidated balance sheet excluding non-recourse movements

| As at \$m | 30-Jun-16 Actual | 30-Jun-17 Actual | 30-Jun-18 Actual |
|---------------------------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | 16.4 | 21.8 | 14.2 |
| Restricted cash | 4.3 | - | - |
| Client receivables | 5.6 | 8.9 | 23.6 |
| Other receivables | 4.4 | 3.1 | 2.5 |
| Current tax asset | 1.1 | 1.8 | - |
| Deferred tax | 11.3 | 8.5 | 7.9 |
| Investment in warehouses | 61.1 | 68.3 | 79.7 |
| Property, plant and equipment | 2.1 | 1.8 | 1.3 |
| Intangibles | 14.4 | 8.6 | 4.0 |
| Goodwill | 148.3 | 148.6 | 148.6 |
| Total assets | 268.9 | 271.3 | 281.8 |
| Liabilities | | | |
| Trade and other payables | 30.6 | 15.1 | 14.4 |
| Current tax payables | - | - | 0.5 |
| Provisions | 4.2 | 4.4 | 4.9 |
| Debt facilities | 3.2 | - | - |
| Borrowings | 53.7 | 55.1 | 55.3 |
| Total liabilities | 91.7 | 74.6 | 75.2 |
| Net assets | 177.2 | 196.8 | 206.6 |
| Equity | | | |
| Issued capital | 221.0 | 207.0 | 207.0 |
| Reserves | (14.5) | 0.8 | 1.7 |
| Retained profits/(accumulated losses) | (29.2) | (11.0) | (2.0) |
| Total equity | 177.2 | 196.8 | 206.6 |

Source: Scottish Pacific annual reports and yearly presentations

Note: Figures may not sum due to rounding

The difference in Scottish Pacific's financial position excluding the non-recourse amounts is driven by the removal of Client receivables, debt facilities and restricted cash, which are held within the Funding Vehicle. In this regard we note:

- Client receivables represents Client exposure funded solely by Scottish Pacific (excluding Scottish Pacific's mezzanine contribution)

- investment in warehouses reflects Scottish Pacific's equity contribution to the Funding Vehicle, through purchased junior notes in the mezzanine facility, and
- the impact of the IPO, in relation to cash and cash equivalents, other receivables, deferred tax, borrowings, and equity, has been adjusted in FY16.

7.3.3 Statement of cash flows

Scottish Pacific's audited historical consolidated statements of cash flows for FY16, FY17 and FY18 are summarised below.

Table 9: Scottish Pacific consolidated statement of cash flows

| For the year ended | 30-Jun-16 | 30-Jun-17 | 30-Jun-18 |
|---|-------------|-------------|--------------|
| \$m | Actual | Actual | Actual |
| Net profit before tax | 0.5 | 27.5 | 41.3 |
| Add back non-cash items | | | |
| Bad and doubtful debt expense | (2.3) | (1.0) | (0.9) |
| Depreciation and amortisation | (3.0) | 8.1 | 7.7 |
| Movement in working capital | 25.4 | (7.5) | 0.6 |
| Operating cash flow before financing and tax | 20.6 | 27.1 | 48.7 |
| Capital expenditure | (1.2) | (0.4) | (0.3) |
| Net increase in Client receivables | 41.7 | (81.7) | (187.6) |
| Proceeds from warehouse debt facilities | (8.2) | 70.7 | 161.3 |
| Lease payments | 0.6 | (0.2) | (0.2) |
| Net cash flow before corporate financing and tax | 53.5 | 15.5 | 21.9 |
| Income taxes paid | (8.3) | (9.1) | (5.1) |
| Acquisition of new business (net of cash acquired) | (141.3) | (2.2) | - |
| Proceeds from the offer | 70.9 | 77.7 | - |
| Movement in corporate debt facilities | 29.5 | (10.0) | - |
| Pre-IPO dividend | - | (36.4) | - |
| Dividend | - | (11.1) | (24.4) |
| Transaction costs | - | (6.3) | - |
| Redemption of LTI scheme | - | (12.4) | - |
| Net cashflow | 4.3 | 5.7 | (7.6) |
| Opening cash | 11.8 | 16.1 | 21.8 |
| Closing cash | 16.1 | 21.8 | 14.2 |

Source: Scottish Pacific annual reports

In relation to Scottish Pacific's cash flows, we note:

- acquisition of new business reflects the acquisition of Bibby and the Debtor Finance portfolio clients of GE Finance and Suncorp
- net increase in Client receivables reflects the growth in Scottish Pacific's loan exposure
- net increase in Client receivables net of proceeds from warehouse debt facilities reflects Scottish Pacific's capital contribution to exposure growth. In FY18, Scottish Pacific contributed \$10.0 million into the Funding Vehicle, whilst \$16.3 million of exposure growth was funded by Scottish Pacific outside of the Funding Vehicle (i.e. utilising its own balance sheet).

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7.4 Strategy and outlook

7.4.1 Strategy

Scottish Pacific's development during the recent period of industry consolidation and post its IPO, has equipped the company with a strong base operating platform. Despite a robust macro-economic environment driving strong demand for business financing, there has been a tightening of the credit market for SMEs as the major banks move away from the Debtor Finance industry, creating a favourable market environment for Scottish Pacific to grow its share of the higher-end SME market. Currently, Scottish Pacific has around 1,600 clients, drawn from a total of 4,300 companies estimated to be currently utilising Debtor Finance products. It is estimated that a total of 65,000 companies have characteristics that would qualify them for Debtor Finance and as many as one million companies require funding solutions. As such, significant opportunity for growth exists.

Accordingly, Scottish Pacific is focused on the following strategies to drive growth in revenue and profitability:

- *Expand product offering.* Scottish Pacific has introduced a range of products to complement its core Debtor Finance offering. Although the penetration of these products has been modest to-date, Scottish Pacific considers Asset Finance, Trade Finance and other complementary products to be critical in providing a financing 'solution' to Clients rather than a discrete product. Such an expanded product offering will create new revenue opportunities, as well as improving the retention of existing Debtor Finance Clients. Further, the new products will assist in neutralising new entrants to the Debtor Finance industry, who have sought to anchor their offerings through similar adjacent product offerings.

The penetration of these products has been relatively slow to build, with Debtor Finance contributing approximately 90% of total revenue in FY18. One of the reasons for the slow penetration is that Scottish Pacific's current Funding Vehicle does not fund a number of these new product offerings, necessitating the need for Scottish Pacific to utilise its cash and corporate debt facility to finance new products. This limits the scale of new products that Scottish Pacific is able to offer its Clients. In addition, as the products are new to Scottish Pacific, it is being cautious when applying its risk framework to ensure the differing risk profiles associated with these products are well managed.

Management is currently discussing changes to the terms of its senior facilities to enable funding of all new products through the Funding Vehicle. As this is achieved and the business processes increase capacity to manage the risks, the contribution of Debtor Finance to total revenue may settle around 70%

- *Cost improvement.* The high cost-to-income ratios in the Debtor Finance industry reflect the relatively high employee contribution required in the underlying business processes. Whilst a reduction in the cost-to-income ratio will naturally occur through increased scale, Scottish Pacific is seeking to improve operational leverage through the adoption of technology to streamline processes, making it easier to on-board new clients and manage ongoing Client activity.

The first stage of this process is underway with the transition of Client information from a number of legacy systems onto Scottish Pacific's Aquarius platform. As that process is completed, other

business processes will be targeted for transformation, with a view to not only reducing costs, but also enhancing risk assessment and monitoring whilst maintaining Scottish Pacific's high 'customer experience'

- *Develop direct and other channels.* Scottish Pacific currently originates approximately 20% of new Clients through its direct channel. Significant investment in the direct channel is being made in an effort to increase the contribution to 30%, seeking to engage with prospective Clients early in their path to 'purchasing' a financing solution. Critical to the evolution of the direct channel is the development of Scottish Pacific's internet platform and the ability to better integrate into its partners' channels to fully benefit from their client reach.

Scottish Pacific is also assessing the opportunity to provide a 'white label' product to selected partners and/or competitors. Although not enhancing Scottish Pacific's brand, 'white label' revenues contribute to realising scale benefits

- *Build scale.* A number of the elements of Scottish Pacific's strategy are focused on revenue growth, seeking to create the scale which will allow various benefits to be realised. Continued investment in technology and people is anticipated to facilitate the growth and ensure Scottish Pacific's risk management standards are not compromised.

Increased scale will assist in lowering the cost-to-income ratio. It will also lessen the potential for concentration risk to arise, allowing Scottish Pacific to finance larger clients, and

- *Inorganic growth.* Consolidation opportunities are expected to continue to be available in the industry as the major banks continue their withdrawal from the sector and the specialist lenders seek increased scale. Scottish Pacific has successfully completed a number of acquisitions in the last few years, and will look at potential acquisitions that give immediate exposure to new product categories or build additional scale in the business.

7.4.2 Key risks

In the normal course of business, Scottish Pacific actively manages a variety of risks that go to the credit quality of its Client portfolio. Continued management of these risks is fundamental to the viability of the business. In addition, there are number of key business risks, which unless managed effectively, have the potential to impact the financial performance of Scottish Pacific in the future, as outlined below.

- *Loss of funding capacity.* Any loss of, or restriction to, one or more of Scottish Pacific's funding sources could limit its ability to write new business, or to write new business on market competitive terms. Scottish Pacific has established relationships with each of its external funders and is confident that additional funding capacity will be available as it continues to grow its total exposure. Over the short to medium term, Scottish Pacific is looking to work with its funding sources to ensure facilities are available to support the development of the Specialised Finance products, as well as meeting market requirements for borrowing ratios of 85%
- *Slowdown in new Client origination.* Scottish Pacific's Client attrition rate peaked at approximately 30% per annum shortly after the Bibby acquisition, maintaining around 20% in FY18. New Client origination typically offsets this attrition, and has seen an increase in total Clients of around 40 in absolute terms over the course of FY18. In the event that Client origination slowed without an

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offsetting decrease in attrition, Client numbers would decline, putting downward pressure on total exposure. Scottish Pacific operates an extensive and diverse distribution network to mitigate this risk and is investing into its direct channel to provide more control over its origination process

- *Integration of acquisitions.* Scottish Pacific is more than half way through the integration of the Bibby, GE Finance and Suncorp acquisitions. The focus is largely on the transition of the legacy IT systems onto Scottish Pacific's Aquarius platform. Failure to complete the remaining integration works effectively, may result in lower synergy benefits being realised, and
- *Regulatory change.* Scottish Pacific currently operates with a relatively low level of regulation. Any change to the regulatory environment in Australia or elsewhere may negatively affect Scottish Pacific's ability to advance funding, increase overall funding costs, or increase the amount of reserve capital needed to support the business. Whilst there is no indication that regulatory change is being considered, the ongoing Hayne royal commission has increased the level of scrutiny on traditional lenders and financial advisors in the retail space. Any increased regulatory oversight arising from the royal commission has potential to filter down into the SME sector in the future.

7.4.3 Guidance

Scottish Pacific has not provided any specific financial guidance for FY19. Management has stated that the business is expected to continue to deliver low double digit profit growth at the NPATA level, with the year-on-year increase in Client exposure and net revenue witnessed at the start of FY19 enabling the company to improve on its FY18 results.

Scottish Pacific also reiterated that it will maintain strong control over its cost base, despite making targeted investments in people and technology, with a view to increasing efficiency in on-boarding new Clients and managing the existing Client base.

Scottish Pacific noted that its pipeline was solid, with the impetus in new product categories, including Asset Finance, Selective Invoice Finance, Bad Debt Protection, Trade Finance and Progress Claim Finance, being strong.

7.4.4 Broker consensus forecasts

In order to provide an indication of the expected future financial performance of Scottish Pacific, we have considered brokers' forecasts. Summarised below are the consensus forecasts for Scottish Pacific for FY19, FY20 and FY21 by brokers that follow the company.



Table 10: Broker consensus forecasts

| Period \$ million unless otherwise stated | Broker Consensus (Median) | | |
|--|---------------------------|-------|-------|
| | FY19 | FY20 | FY21 |
| Net Revenue | 121.9 | 130.7 | 134.7 |
| EBITDA | 59.9 | 63.9 | 66.7 |
| EBIT | 56.4 | 63.0 | 65.9 |
| NPAT | 36.0 | 41.5 | 43.9 |
| NPATA | 38.8 | 41.5 | 43.9 |
| <i>Revenue growth</i> | 12.2% | 7.2% | 3.0% |
| <i>EBITDA growth</i> | 10.3% | 8.7% | 4.2% |
| <i>EBIT growth</i> | 18.5% | 5.8% | 4.7% |
| <i>NPAT growth</i> | 21.2% | 15.3% | 5.8% |
| <i>NPATA growth</i> | 11.2% | 7.0% | 5.8% |
| <i>EBITDA margin</i> | 49.1% | 48.9% | 49.5% |
| <i>EBIT margin</i> | 46.3% | 48.2% | 48.9% |
| <i>NPAT margin</i> | 29.5% | 31.8% | 32.6% |
| <i>NPATA margin</i> | 31.8% | 31.8% | 32.6% |

Source: Broker reports; KPMG Corporate Finance analysis

Note: Based on the median of broker forecasts

In relation to the broker consensus forecasts, we note:

- Scottish Pacific is followed by three brokers, all of which are represented in the above consensus forecasts for FY19 and FY20. Only two brokers provide forecasts for FY21
- The consensus forecasts represent the latest available broker forecasts for Scottish Pacific. All three brokers released an updated report (including forecasts for FY19 and FY20) after Scottish Pacific announced its results for FY18 on 28 August 2018
- All three brokers upgraded their earnings outlook for Scottish Pacific by approximately 3.5% to 9.5% at NPAT level over the next two years, primarily driven by expectations of stronger growth forecasts, tighter cost controls and returns from new income streams, and
- Consensus forecasts indicate that net revenue should grow at a CAGR of 7.4%, while NPATA growth is anticipated to be 10.3% over the three year period.

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7.5 Capital structure and ownership

7.5.1 Issued capital

As at 24 September 2018, Scottish Pacific's issued capital comprised the following:

- 139,191,601 ordinary fully paid shares on issue, and
- 4,243,619 unlisted share options issued under an employee share plan.

In relation to the unlisted share options, we note:

- 1,739,287 unlisted share options were issued under the FY17 long-term incentive plan (LTI Plan), based on an exercise price of \$3.20 per option
- 2,504,332 unlisted share options were issued under the FY18 LTI Plan, based on an exercise price of \$2.80 per option, and
- unlisted share options that are to be issued under the FY19 LTI Plan will lapse and be replaced by the Bidder's LTI Plan.

A condition of the Scheme is that all options are cancelled prior to the implementation of the Scheme in exchange for a cash payment from Scottish Pacific equivalent to the Scheme Consideration that the relevant holder would have received had the option been validly exercised or converted prior to the Scheme Meeting.

7.5.2 Substantial shareholders

The substantial shareholders of Scottish Pacific as at 24 September 2018 are set out below.

Table 11: Substantial shareholders

| Shareholder | Number of shares held | Percentage of issued capital |
|---|-----------------------|------------------------------|
| CBA | 18,243,940 | 13.1% |
| Ellerston Capital | 17,816,008 | 12.8% |
| Yarra Funds Management | 13,266,773 | 9.5% |
| H.E.S.T Australia as Trustee for Health Employees Superannuation Trust Aust | 12,105,902 | 8.7% |
| Australian Super Pty Ltd | 8,946,383 | 6.4% |
| JP Morgan Chase & Co | 8,776,181 | 6.3% |
| Eley Griffiths Group Pty Limited | 6,996,420 | 5.0% |
| Total number of shares held | 86,151,607 | 61.9% |

Source: Scottish Pacific



7.5.3 Shareholder distribution

The profile of Scottish Pacific's shareholder base as at 24 September 2018 is set out below.

Table 12: Number of ordinary shares on issue and distribution of holdings

| Range | Number of holders | % of holders | Number of shares | % of shares |
|-------------------|-------------------|---------------|--------------------|---------------|
| 100,001 and over | 43 | 3.1% | 127,199,635 | 91.4% |
| 10,001 to 100,000 | 302 | 22.1% | 7,946,140 | 5.7% |
| 5,001 to 10,000 | 307 | 22.4% | 2,377,438 | 1.7% |
| 1,001 to 5,000 | 532 | 38.9% | 1,587,597 | 1.1% |
| 1 to 1,000 | 185 | 13.5% | 80,791 | 0.1% |
| Total | 1,369 | 100.0% | 139,191,601 | 100.0% |

Source: Scottish Pacific

As at 24 September 2018, approximately 91.4% of Scottish Pacific's shares were held by 3.1% of shareholders and 52.4% of Scottish Pacific's shareholders (by number of shareholders) held less than 5,000 shares.

Table 13: Number of unlisted options on issue and distribution of holdings

| Range | Number of holders | % of holders | Number of options | % of options |
|-------------------|-------------------|---------------|-------------------|---------------|
| 100,001 and over | 14 | 87.5% | 4,124,856 | 97.2% |
| 10,001 to 100,000 | 2 | 12.5% | 118,763 | 2.8% |
| 5,001 to 10,000 | - | - | - | - |
| 1,001 to 5,000 | - | - | - | - |
| 1 to 1,000 | - | - | - | - |
| Total | 16 | 100.0% | 4,243,619 | 100.0% |

Source: Scottish Pacific

7.5.4 Interests held internally

Scottish Pacific's Directors and Management hold interests in the company in the form of ordinary shares and unlisted share options. Details of interests held by these individuals are set out below.

Scottish Pacific shares

As at 24 September 2018, the Directors and Management Shareholders of Scottish Pacific held the following Scottish Pacific Shares (either directly or indirectly).

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Table 14: Directors' and Management Shareholders' relevant interests in Scottish Pacific

| Name of Director or Management Shareholder | Number of ordinary shares held |
|---|--------------------------------|
| Non-executive Directors | |
| Patrick Elliott | 896,895 |
| Peter Clare | 249,300 |
| Andrew Love | 66,250 |
| Katrina Onishi | 40,000 |
| Management Shareholders | |
| Peter Langham | 3,631,966 |
| Craig Michie | 558,841 |
| Chris Hedge | 515,000 |
| Paul Green | 206,565 |
| Steven Davies | 95,400 |
| Daniel Verdon | 88,181 |
| Geoffrey Chisholm | 85,348 |
| Wayne Smith | 50,076 |
| Justin Doczy | 47,082 |
| Wayne Goss | 5,000 |
| Total interest held by Directors and Management Shareholders | 6,535,904 |

Source: Scottish Pacific

Scottish Pacific unlisted share options

Scottish Pacific's remuneration framework includes the issue of share options which vest or are exercised if certain performance hurdles are met. As at 24 September 2018, share options held by Management are set out below.

Table 15: Unlisted share options on issue to Management

| Name | Number of unlisted options held |
|--|---------------------------------|
| Peter Langham | 984,940 |
| David Rose | 258,070 |
| Craig Michie | 312,095 |
| Wayne Smith | 328,601 |
| Steven Davies | 336,490 |
| Ben Cutler | 173,376 |
| Total interest held by Management | 2,393,572 |

Source: Scottish Pacific

7.6 Share price performance

In assessing Scottish Pacific's share price performance, we have:

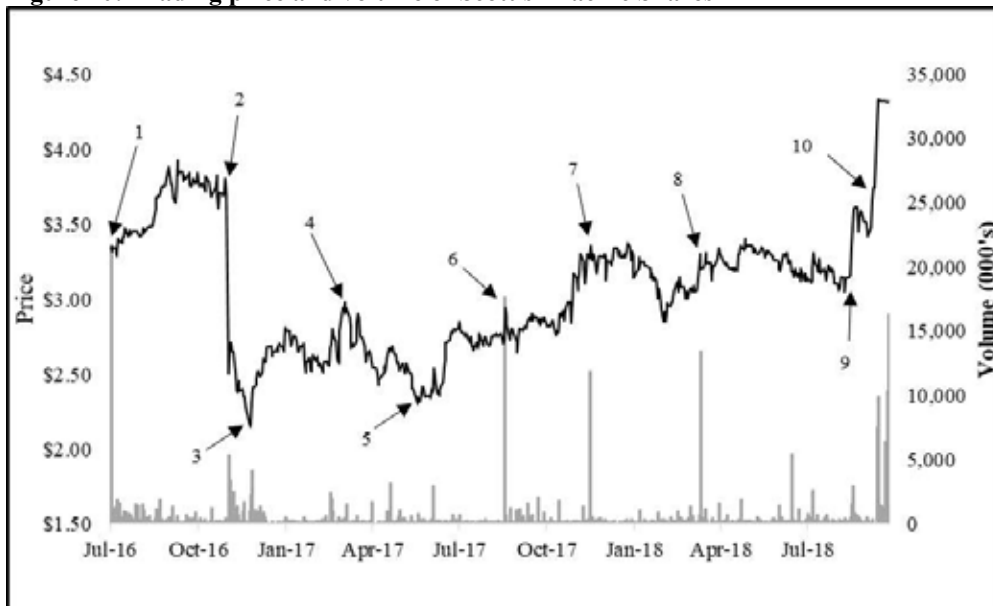
- analysed share price and trading volume since its listing on the ASX on 13 July 2016
- compared the share price performance of Scottish Pacific to the S&P/ASX 200 Financial Index and S&P/ASX Small Ordinaries Index, the most relevant indexes to Scottish Pacific, and
- analysed the trading liquidity of Scottish Pacific Shares.

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7.6.1 Share price and trading volume

Scottish Pacific's share price and trading volume since 13 July 2016 is illustrated below.

Figure 10: Trading price and volume of Scottish Pacific Shares



Source: IRESS; KPMG Corporate Finance analysis

Since listing, Scottish Pacific's share price reached a high of \$3.93 on 21 September 2016 and a low of \$2.15 on 6 December 2016. Key events which influenced the trading price and volume of Scottish Pacific Shares since its IPO include:

- 1 On 13 July 2016, Scottish Pacific listed on the ASX at a price of \$3.20 per share. Trading opened at \$3.35 a share and reached a high of \$3.41 before closing at \$3.35. The closing price represented a 4.7% increase over the IPO price. The share price continued to increase in subsequent months, hitting a high of \$3.93 on 21 September 2016, driven by Scottish Pacific's strong financial track record and institutional interest in the listing
- 2 On 14 November 2016, Scottish Pacific provided a trading update covering the first four months of FY17. The update informed investors that the deployment of assets was lower than expected, especially among larger clients, which would result in lower net revenue than outlined in the Prospectus. Despite Management expecting margins to be in-line with expectations and bad debts to be lower than expected, net revenue and profit guidance was revised downwards. The trading update resulted in the share price declining 32.4% to close at \$2.50
- 3 On 6 December 2016, Scottish Pacific's share price reached its trading low of \$2.15, reflecting continued negative market sentiment following the earnings downgrade

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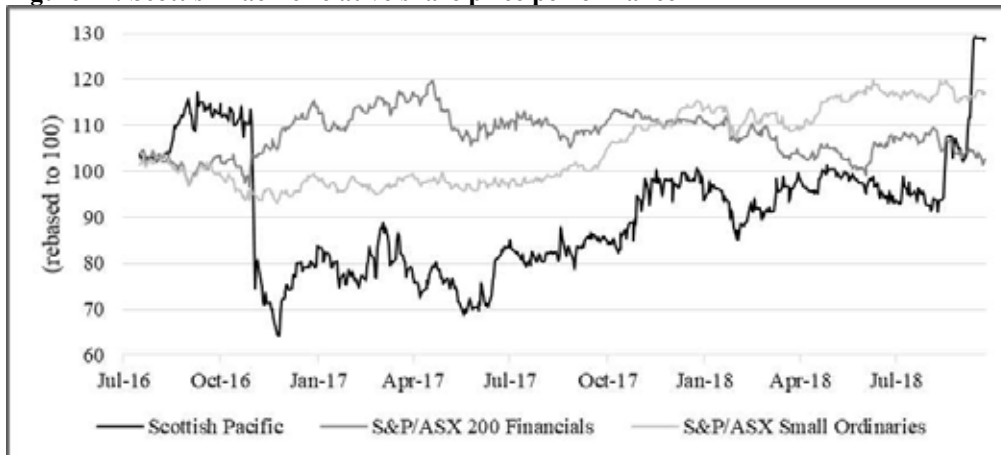
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- 4 On 14 March 2017, S&P Dow Jones Indices announced its March Quarterly Rebalance, which led to Scottish Pacific being added to the S&P/ASX 300 index. Scottish Pacific's share price rose to \$2.98 following the announcement. However, the positive momentum in the share price was not sustained, with the share price dipping below \$2.50 within the next month of trading on the back of irregular volumes
- 5 On 30 May 2017, Scottish Pacific shares closed at \$2.30, mainly driven by a number of transactions between institutional shareholders
- 6 On 29 August 2017, Scottish Pacific announced its FY17 results, which showed an increase in net revenue and profitability, organic growth in the loan book of 11.3% and the announcement of a final, fully-franked dividend of 8.5 cents per share. The positive results led to increased trading activity, with the share price increasing by 7.7%
- 7 On 27 November 2017, Next Capital, which was Scottish Pacific's primary shareholder at the time of the IPO, partially divested its holding from 16.6% to 8.3%
- 8 On 23 March 2018, Next Capital completed its exit from the Scottish Pacific share register, selling its remaining 8.3% stake
- 9 On 28 August 2018, Scottish Pacific reported its FY18 results, which showed an increase in net revenue and profit metrics. Earnings per share (EPS) increased by 15% to 24.2 cents per share and a final, fully franked dividend of 10.0 cents per share was declared, representing a payout ratio of 78.5%. This led to renewed interest in Scottish Pacific's shares, triggering a 13% increase in the share price in the three days following the results announcement, and
- 10 On 20 September 2018, Scottish Pacific requested a trading halt pending the announcement of a potential control transaction. Its last traded price was \$3.74. On 24 September 2018 the company announced that it had entered into the SIA with the Bidder to acquire 100% of the shares of Scottish Pacific for a total cash consideration of \$4.40 per share. Trading resumed on 24 September 2018, with the share price closing at \$4.31, a slight discount to the Scheme Consideration. Subsequently, Scottish Pacific shares traded at relatively high volumes within a narrow range of \$4.31 to \$4.33, closing at \$4.31 on 23 October 2018.

7.6.2 Relative share price performance

The trading performance of Scottish Pacific Shares over the period 13 July 2016 to 20 September 2018 relative to the S&P/ASX 200 Financials and the S&P/ASX Small Ordinaries Index is illustrated below.

Figure 11: Scottish Pacific relative share price performance



Source: IRESS; KPMG Corporate Finance analysis

Scottish Pacific's performance was considered relative to the financial sector (S&P/ASX 200 Financials index) and the small cap sector (S&P/ASX Small Ordinaries index), to represent the company's financial sector focus and small cap status.

Driven by strong investor sentiment immediately after its IPO, Scottish Pacific outperformed both the small cap sector and the financial sector as it reached its peak trading price of \$3.93 on 21 September 2016. However, as a result of the earnings downgrade in November 2016, the share price declined significantly and although it enjoyed a modest recovery in the subsequent three months, Scottish Pacific largely underperformed both the financial sector and the small cap sector for much of 2017.

After reporting strong financial results in August 2017, the share price sustained a gradual upward trend, contrasting with the flatter performance of the small cap sector and a gradual downturn in the financial sector.

From early 2018, negative market sentiment arising from the Hayne royal commission impacted the broader financial sector, with the financials index declining by over 5% over the year.

Since its IPO, Scottish Pacific's share price has been significantly more volatile than either the financial sector or the small cap sector, in part due to the limited liquidity of trading in Scottish Pacific shares. The volatility was exacerbated by the activity of significant institutional investors, such as Next Capital, Ellerston Capital, Commonwealth Bank of Australia and Health Employees Superannuation Trust, whose block trades caused periodic spikes in volumes, followed by long periods of subdued volumes.

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7.6.3 Liquidity and volume weighted average price

The trading liquidity and VWAP of Scottish Pacific Shares for various periods ending 19 September 2018 is summarised below.

Table 16: Liquidity and VWAP

| Period | Price (low) \$ | Price (high) \$ | Price VWAP \$ | Cumulative value \$ '000 | Cumulative volume 000 | % of issued capital |
|---------------------------------------|----------------------|-----------------------|---------------------|--------------------------------|-----------------------------|------------------------|
| Period ended 19 September 2018 | | | | | | |
| 1 day | 3.56 | 3.74 | 3.67 | 1,246.3 | 339.5 | 0.2% |
| 1 week | 3.38 | 3.48 | 3.55 | 3,799.0 | 1,069.2 | 0.8% |
| 1 month | 3.05 | 3.13 | 3.44 | 36,420.8 | 10,581.7 | 7.6% |
| 3 months | 3.04 | 3.13 | 3.27 | 94,053.8 | 28,730.9 | 20.6% |
| 6 months | 3.04 | 3.13 | 3.27 | 199,333.1 | 60,927.6 | 43.8% |
| 12 months | 2.72 | 2.80 | 3.20 | 331,846.2 | 103,666.2 | 74.5% |

Source: IRESS; KPMG Corporate Finance analysis

We consider the percentage of shares traded over the 12 months to 19 September 2018 suggests that trading in Scottish Pacific Shares is sufficient to be considered liquid. However, the level of institutional shareholding relative to retail shareholding is high, resulting in low average daily trading volumes.

7.6.4 Dividends

Scottish Pacific's dividend policy has a long term target dividend payout ratio of between 60% and 80% of the group's underlying profit. This level may vary between periods depending on a number of factors, including capital management initiatives and any other factors considered relevant by the Directors, including taxation considerations (including the level of franking credits available).

Table 17: Dividends

| For the year ended | 30-Jun-17 | 30-Jun-18 |
|--|-----------|-----------|
| Profit | | |
| Normalised NPAT (\$ million) | 25.3 | 28.6 |
| Statutory profit before tax (\$ million) | 27.5 | 41.3 |
| Earnings per share | | |
| Reported earnings per share (cents) | 18.2 | 24.2 |
| Dividend per share (cents) | 16.5 | 19.0 |
| Total dividends paid (cents) | 16.5 | 19.0 |

Source: FY18 Results Presentation; FY17 Results Presentation

On 28 August 2018, Scottish Pacific announced a fully franked final dividend of 10.0 cents per share. The final dividend had a record date of 5 September 2018 and was due to be paid on 19 September 2018. This brought the full year dividend to 19.0 cents a share on earnings of 24.2 cents a share (representing a payout ratio of 78.5% of pro forma NPATA).



8 Valuation of Scottish Pacific

8.1 Summary

KPMG Corporate Finance has assessed the value of Scottish Pacific to be in the range of \$590.0 million to \$670.0 million, which corresponds to a value of \$4.24 to \$4.81 per Scottish Pacific Share. Our valuation assumes 100% ownership of Scottish Pacific and, therefore, incorporates a control premium.

The valuation of Scottish Pacific reflects the value attributed to Scottish Pacific's operating business and non-operating assets, less adjusted net debt as at 31 August 2018¹⁹. The valuation is summarised in the table below.

Table 18: Scottish Pacific summary of value

| \$ millions (unless otherwise stated) | Section reference | Value range | |
|--|-------------------|---------------|---------------|
| | | Low | High |
| Value of Scottish Pacific operating business (including synergies) | 8.3 | 680.0 | 760.0 |
| Other assets/(liabilities) (net) | 8.4 | - | - |
| Enterprise value | | 680.0 | 760.0 |
| Adjusted net debt | 8.5 | (90.0) | (90.0) |
| Value of 100% of the equity in Scottish Pacific | | 590.0 | 670.0 |
| Number of Scottish Pacific Shares outstanding (millions) | 7.5 | 139.2 | 139.2 |
| Value per Scottish Pacific Share | | \$4.24 | \$4.81 |

Source: KPMG Corporate Finance analysis.

Note: Table may not add due to rounding

In assessing the value of Scottish Pacific's operating business, KPMG Corporate Finance has adopted a DCF analysis as the primary methodology. The value derived from the DCF analysis has been cross-checked using multiples of NPATA for transactions involving Debtor Finance and Specialised Finance providers with operations in Australia and comparable listed Debtor Finance and Specialised Finance providers. The valuation of Scottish Pacific's operating business is set out in Section 8.3.

Synergies available to acquirers, such as cost savings through merging operations, are normally a significant factor in justifying their ability to pay a meaningful premium over market prices. With regard to Scottish Pacific, no complimentary group of buyers in the Australian Debtor Finance industry that could benefit from merging operations with Scottish Pacific could be identified. As a result, we have considered synergies that may be available to a trade or financial buyer. Direct synergies available to such an acquirer would be limited to public company costs. Therefore, the valuation assumes that all public company costs are eliminated (refer to Section 8.2.3).

Observations from transaction evidence indicate that takeover premiums generally range from 25% to 40%²⁰ for completed takeovers depending on the individual circumstances of the transaction. In transactions where it was expected that the combined entity would be able to achieve significant

¹⁹ Net debt as at 31 August 2018 has been adjusted to reflect additional drawdowns under the corporate debt facility required to fund the final dividend payable for FY18 as well as the cash consideration payable by Scottish Pacific under the Scheme upon cancellation of all outstanding options related to the FY17 and FY18 LTI Plan. Further details in relation to the adjustments to net debt are outlined in Section 8.5

²⁰ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2008 and 2018, comparing the Mergerstat 'unaffected' share price of the target company to the final offer price

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synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater.

Our valuation range of \$4.24 to \$4.81 per Scottish Pacific Share reflects a premium over the one month VWAP of \$3.44 of Scottish Pacific Shares²¹ of between 23% and 40% (and over the one week VWAP of \$3.55 of between 15% and 35%). These premiums are consistent with the premiums that are typically observed, which we consider reasonable since:

- they reflect the positive growth outlook for Scottish Pacific, and
- they incorporate synergies available to a pool of potential purchasers.

8.2 Valuation methodology

8.2.1 Overview

Our valuation of Scottish Pacific has been prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay. Our valuation has had regard to the additional value resulting from synergies that would generally be available to a 'pool' of potential purchasers, which we have assessed as being limited to the elimination of public company costs.

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of maintainable earnings (Capitalised Earnings)
- discounted cash flows (DCF)
- estimated net proceeds from an orderly realisation of assets (Net Assets)
- rules of thumb, and
- current trading prices on the relevant securities exchange.

These methodologies are discussed in further detail in Appendix 4. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is often adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable capital-light businesses, methodologies such as DCF and Capitalised Earnings are commonly used as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable,

²¹ One month prior to 19 September 2018, being the last trading day prior to the request for a trading halt pending the announcement of a possible control transaction

non-tradeable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any. For listed companies, the trading price typically provides an indication of the value of a minority interest where trading is liquid, volatility is not excessive and no takeover speculation is evident.

8.2.2 Selection of methodology

A discussion of the rationale for the selection of our primary and cross-check valuation methodologies is set out below.

DCF methodology

A DCF approach was adopted as our primary methodology for Scottish Pacific's operating business. This approach allows for analysis of key assumptions and for a range of scenarios to be modelled (such as revenue growth and operating margin). The DCF analysis was based on long-term cash flows developed by KPMG Corporate Finance, utilising the Financial Model provided by Scottish Pacific as a base.

KPMG Corporate Finance has undertaken various enquiries in relation to the Financial Model, including holding discussions with Scottish Pacific Management in regard to the commercial assumptions underlying the Financial Model and their bases. We have reviewed the key commercial assumptions in the context of current economic, financial and other conditions (e.g. regulatory, contractual). KPMG Corporate Finance is of the view that the forward looking information has been prepared on a reasonable basis and, therefore, is suitable as a base for our valuations. In making this assessment, we have taken into account the following:

- the Financial Model was prepared by the Management of Scottish Pacific in conjunction with their advisors
- the Financial Model is based on the FY19 Budget
- the FY19 Budget has been endorsed by the Board
- the Financial Model was prepared for the purpose of the Proposed Transaction. However, KPMG Corporate Finance has no reason to believe that there is any bias, either positive or negative
- the Debtor Finance and Specialised Finance businesses are modelled separately. Organic revenue growth rates for the Debtor Finance business are consistent with historical performance. Higher growth is expected in the Specialised Finance business as penetration rates increase for new products that have recently been introduced to the market. However, the Specialised Finance business contributed only approximately 10.7% to the total net revenue of Scottish Pacific in FY18
- capital and working capital requirements are consistent with historical experience
- existing funding arrangements provide sufficient headroom to support the expected growth over the short to medium term, and
- there are a range of strategies available to Management to mitigate the impact of factors influencing operating margins.

Whilst we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, or tested the mathematical

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integrity of the Financial Model, we have in our view made sufficient enquires, including discussing the Financial Model key assumptions with Management and where considered necessary, have made adjustments to reflect our judgement.

Capitalised Earnings methodology

A Capitalised Earnings methodology is appropriate for businesses with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. Whilst this would apply to Scottish Pacific, there is only limited market evidence available to calculate meaningful multiples. Consequently, this methodology is not considered appropriate as a primary valuation methodology, however, it has been utilised as a cross-check.

A Capitalised Earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT (or EBITA) and NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings (P/E) multiples. The choice between parameters is usually not critical and should give a similar result. However, we note that:

- EBITDA is commonly used in capital intensive industries, where differences in depreciation policies adopted by market participants can make comparisons between companies difficult
- EBIT better recognises the differences in relative capital expenditure intensity, thereby enabling comparisons to be drawn between companies with differing asset management strategies (e.g. purchasing versus leasing of plant and equipment)
- NPAT is commonly used in the context of the sharemarket and has the advantage of eliminating the distortion caused by equity-accounted investments. However, a limitation of P/E multiples is that they do not take into consideration the financial risks associated with different capital structures. For financial services businesses however, P/E multiples are a commonly used valuation metric given net interest income is integral to the underlying earnings of these businesses, and
- earnings measures excluding amortisation charges (i.e. EBITDA, EBITA or NPATA) are commonly used in industries where participants have made a large number of acquisitions and, therefore, companies have significant amortisation expenses that vary between companies and countries.

As the comparable companies include a number that have made regular acquisitions, we have adopted P/E multiples using NPATA as a cross-check.

Scottish Pacific has not provided specific guidance for FY19 or beyond. Accordingly, the implied forward multiples have been calculated based on broker consensus forecasts for Scottish Pacific. These estimates have been compared to Scottish Pacific Management's forecasts and we have concluded that the broker forecasts for FY19 are sufficiently close to Scottish Pacific Management's forecasts to be useful for analytical purposes.

Rules of thumb

KPMG Corporate Finance is not aware of any commonly used rules of thumb applicable to the Debtor Finance industry.

Net Assets

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). Such an approach does not capture growth potential or internally generated intangible value associated with the business and consequently, has not been applied. However, we have considered Price-to-Book (P/B) multiples which are commonly applied in the financing industry as a further cross-check.

8.2.3 Control premium

Consistent with the requirements of RG 111, we have assumed 100% ownership in valuing Scottish Pacific and, therefore, our valuation is inclusive of a premium for control. In particular:

- a number of potential trade and financial buyers of 100% of Scottish Pacific would be able to save all of Scottish Pacific's public company costs (approximately \$1.8 million in FY18). No other synergies have been included as we could not identify a complimentary group of buyers in the Australian Debtor Finance industry that could achieve significant benefit from merging operations with Scottish Pacific. As a result, only savings in relation to public company costs have been included in the cash flows, and
- we have considered a premium for control when assessing our Capitalised Earnings based cross-check. Multiples applied in a Capitalised Earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices and reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated in such pricing. They may also be impacted by the level of liquidity in trading and volatility of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

8.3 Valuation of Scottish Pacific's operating business

8.3.1 Discounted cash flow analysis

The DCF analysis was based on a long-term financial model developed by KPMG Corporate Finance, utilising the Financial Model provided by Scottish Pacific as a base. The DCF analysis projects nominal, after tax cash flows from 1 September 2018 to 30 June 2027²² (Forecast Period), a period of nine years. A terminal value is calculated by capitalising net after tax cash flows based on the Gordon Growth formula and an assumed terminal growth rate of 2.5% to represent the value of cash flows in perpetuity. Ungeared, after tax cash flows are discounted by a weighted average cost of capital (WACC) in the range of 10.0% to 11.0% (refer to Appendix 6). A corporate tax rate of 30% has been utilised.

²² Based on a pro-rata of Scottish Pacific's FY19 budget

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The Financial Model provides for separate assumptions to be applied to the core Debtor Finance business and the complementary Specialised Finance business, to reflect the differing growth and funding profiles. However, the Specialised Finance business represents a relatively small, albeit fast growing, proportion of the overall business (\$11.6 million or 10.7% of net revenue and \$33.6 million or 3.4% of average exposure in FY18).

Scenario A is based on the forecasts and projections for Scottish Pacific's Debtor Finance and Specialised Finance businesses prepared by Management (for the period FY19 to FY21), with KPMG Corporate Finance applying longer term assumptions to extend the cash flows an additional six years to FY27. Scenario A is based on the following assumptions:

Debtor Finance revenue

- net revenue consists of management fees and net interest income, and is forecast to grow at a CAGR of approximately 5.9% over the Forecast Period, with the key drivers of growth being the number of Clients, turnover per Client and average monthly exposure per Client
- net Client growth per annum for FY19 to FY21 is assumed to be similar to FY18 (c.40 net Client additions), with a reduced net Client growth rate of 1.0% assumed thereafter. This reflects the recent experience that despite the relatively low penetration of Debtor Finance in Australia relative to other developed economies and the tightening of credit by major banks, market penetration has remained relatively stable. Further, Client attrition is expected to stay at FY18 levels of approximately 20% over the Forecast Period (supported by complementary product offerings through the Specialised Finance business), setting a challenging threshold for new Client origination in order to achieve net Client growth. On the other hand, Scottish Pacific operates an extensive and diverse distribution network to mitigate the risk of a deteriorating Client base and is investing into its direct channel to provide more control over its origination process
- turnover and average monthly exposure per Client are expected to grow at a CAGR of approximately 5.5% over the Forecast Period. The expected higher growth over the short to medium-term is supported by historic evidence showing that Scottish Pacific's Client book is weighted towards capital light, higher growth SMEs resulting in "on book" Debtor Finance exposure growth of roughly three times GDP
- net management fees are calculated as a percentage of turnover and are assumed to deteriorate by 7 bps over the Forecast Period. This accounts for the recently experienced trade-off between volume growth and margin deterioration, which is largely driven by pressure from larger Client exposures to cap variable administration fees. However, it is noted that volume driven revenue growth more than offsets adverse margin impacts as evidenced in FY18, and
- net interest income is calculated as a percentage of average monthly exposure and averages approximately 4.0% over the Forecast Period, which is consistent with the net interest margin reported for FY18. As a wholesale procurer of funding provided by banks (through the Funding Vehicle) and a wholesale lender to its Clients, Scottish Pacific's business model creates a natural hedge for its net interest margin which supports a relatively stable margin assumption over the Forecast Period (in an assumed stable economic environment). The net interest margin also covers commission expenses, whereby the expected continued expansion of the direct distribution channel

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could mitigate the risk of potential cost pressures from Scottish Pacific's third party distribution channels.

Specialised Finance revenue

- net revenue consists of management fees and net interest income, and is forecast to grow at a CAGR of approximately 13.8% over the Forecast Period, albeit from a relatively small base. As a result, the proportion of Scottish Pacific's net revenue generated from the Specialised Finance business is expected to grow from 10.7% in FY18 to approximately 18.0% by FY27. The higher growth expected from the Specialised Finance business relative to the Debtor Finance business is supported by historic evidence (including the increased penetration of Debtor Finance Clients with Specialised Finance products) as well as the introduction of new products, including Asset Finance, Cashline and Corporate Credit Line, which were introduced to the market in the first quarter of FY19
- average monthly exposure of the Specialised Finance business is expected to grow at a CAGR of approximately 19.7%, whilst the weighted average net revenue margin (calculated as a percentage of average monthly exposure) across the Specialised Finance products declines over the Forecast Period as lower margin products gain weight, and
- the introduction of new working capital products into the market presents new opportunities but also carries additional risks for the group. From experience, the fine tuning of credit processes and controls, and the consideration of fraud factors for new products is changeable during the early stages of the product. A lack of historic track record in managing the credit quality of its new product portfolio may also temporarily limit Scottish Pacific's ability to leverage its existing funding vehicles in order to write new business on market competitive terms. As such, until the business model and risk management processes associated with the new products are fine-tuned and proven, there is higher uncertainty inherent in the assumptions relating to new products within the Financial Model, which we have considered in our assessment of an appropriate WACC for the Scottish Pacific business as a whole.

Expenses

- whilst total net revenue is forecast to grow at a CAGR of approximately 6.9% over the Forecast Period, total operating expenses (including corporate overhead) are expected to increase at a CAGR of approximately 4.7%, resulting in a reduction of the cost-to-income ratio by approximately 8.6 percentage points over the Forecast Period. Due to its high touch service model characterised by frequent Client and debtor interaction, as well as the relatively high attrition rates experienced within the industry, staff expenses related to Scottish Pacific's sales, operating and corporate overhead functions represent the main cost driver. Whilst the assumed improvement in the cost-to-income ratio over the Forecast Period is primarily driven through increased scale, Scottish Pacific is also seeking to improve operational leverage through the adoption of technology to streamline processes, making it easier to on-board new Clients and manage ongoing Client activity. The first stage of this process is underway with the transition of Client information from a number of legacy systems onto Scottish Pacific's Aquarius platform. As that process is completed, other business processes will be targeted for transformation, with a view to not only reducing costs, but also enhancing risk assessment and monitoring whilst maintaining Scottish Pacific's high 'customer experience'. Management has also

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demonstrated its ability to manage costs effectively and deliver scale efficiencies, as evidenced by the reduction in the cost-to-income ratio from 57.5% in FY16 to 50.2% in FY18

- public company costs in the order of \$1.8 million have been eliminated from the operating expenses within the Financial Model to reflect the direct synergies available to a trade or financial buyer. No further synergies have been identified due to the lack of a complimentary group of buyers in the Australian Debtor Finance industry that could benefit from merging operations with Scottish Pacific
- bad debt expenses as a percentage of average monthly exposure are assumed to remain relatively stable over the Forecast Period on a product level and consistent with the historic experience over the last two years. However, the market requirement for borrowing ratios of 85% (increased from historical levels of around 80%) will flow through to a corresponding increase in the LVR of Scottish Pacific's loan book over time, resulting in a slight increase in the assumed level of bad debt ratio over the Forecast Period. We note that the potential risk of a significant one-off bad debt experience due to fraud is not reflected in Scenario A
- based on discussions with Management, it has been assumed that depreciation is equivalent to capital expenditure and consistent with historic levels, and
- corporate tax rate of 30%, with tax being paid in the year it is incurred.

Funding

- the highly liquid nature of the security combined with very low loss rates supports a deep and robust funding environment. Equity is contributed to the Funding Vehicle based on growth in exposure and consistent with existing funding requirements. Whilst Scottish Pacific's capital light funding model only requires around 5% of equity support for new business origination, the Financial Model assumes equity funding to be around 8% for the Debtor Finance business (consistent with current experience), given latency in warehouse funding and equity funding of assets not eligible for warehouse funding
- the current level of "on balance sheet" funding (through a mix of equity and corporate debt facility drawdowns) of exposure growth is above historic trend, primarily driven by an increased portion of new loan originations in the Specialised Finance business which currently do not meet the relevant lending criteria of the Funding Vehicle. However, Management is in negotiations with its warehouse lenders to adapt the relevant lending criteria and enable new Specialised Finance products to also be funded by the Funding Vehicle. Once completed, Scottish Pacific's level of "on balance sheet" funding of exposure growth is then expected to revert to historical trend. Nevertheless, the Financial Model assumes that due to the nature and maturity of the Specialised Finance business, a higher level of "on balance sheet" funding of exposure growth (around 10%) will be required relative to the well-established Debtor Finance business
- the working capital movements reflect the flow of funds through the mezzanine and senior debt warehouse facilities, as well as other working capital commitments, which are managed with a minimum unrestricted cash balance in the order of \$10 million to \$15 million. The minimum unrestricted cash balance is necessary to ensure that Scottish Pacific's substantial and volatile daily cash inflows and outflows can be managed appropriately. The corporate debt facility is treated as financial debt for gearing purposes and, as such, is reflected in our assessed WACC rather than being included in the derived ungeared after tax cash flows utilised for valuation purposes.

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8.3.2 Sensitivity analysis

Scenario A produces a net present value (NPV) range for Scottish Pacific's operating business of \$690.2 million to \$785.3 million. KPMG Corporate Finance has analysed Scenario A to assess the sensitivity of the NPV outcomes to changes in a number of variables. The sensitivities set out below have been applied to each year over the entire Forecast Period from FY19 to FY27:

- net Client growth of the Debtor Finance business: +/- 100 bps (i.e. changing the growth in new Clients after attrition from a CAGR of 1.5% over the Forecast Period under Scenario A to 2.5% or 0.5%, which implies a cumulative growth impact over the Forecast Period)
- turnover/average exposure growth for the Debtor Finance business: +/- 100 bps (i.e. changing the turnover/average exposure per customer growth from a CAGR of 5.5% over the Forecast Period under Scenario A to 6.5% or 4.5%, which implies a cumulative growth impact over the Forecast Period)
- net management fee (as % of turnover) for the Debtor Finance business: +/- 1 bps
- net interest margin (as % of average monthly exposure) for the Debtor Finance business: +/- 25 bps
- bad debt losses (as % of average monthly exposure) for the Debtor Finance business: -/+ 10 bps
- warehouse funding of exposure growth (as % of net new Client receivables) for the Specialised Finance business: +/- 5% (i.e. adjusting the assumption of 90% under Scenario A to 95% or 85%)
- change in exposure growth profile for the Specialised Finance business: +/- 10% (i.e. 110% or 90% of the annual growth rates of turnover / average exposure assumed across all Specialised Finance products under Scenario A. As a result the net revenue CAGR of 13.8% over the Forecast Period under Scenario A changes to 15.1% or 12.4%, which implies a cumulative growth impact over the Forecast Period)
- net revenue margin (as % of average monthly exposure) for the Specialised Finance business: +/- 100 bps
- bad debt losses (as % of average monthly exposure) for the Specialised Finance business: -/+ 50 bps, and
- cost-to-income ratio (i.e. operating expenses as % of net revenue) for the consolidated business of Scottish Pacific: -/+ 200 bps.

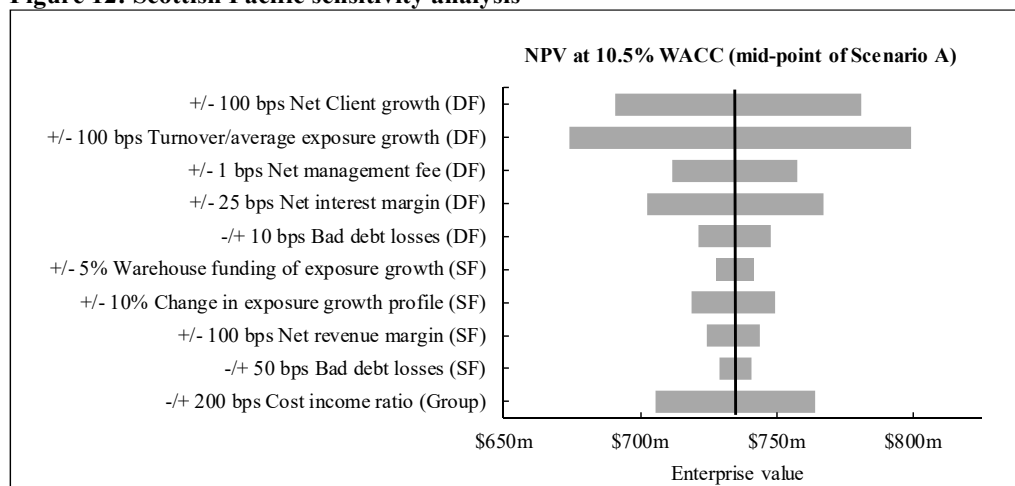
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The output of this sensitivity analysis is summarised in the figure below.

Figure 12: Scottish Pacific sensitivity analysis



Source: KPMG Corporate Finance analysis

Note: DF = Debtor Finance business; SF = Specialised Finance business; Group = Consolidated business of Scottish Pacific

The chart above highlights the sensitivity of NPV outcomes to selected movements in a number of the key assumptions. The analysis indicates that:

- NPV is mainly sensitive to changes in volume growth and revenue margin assumptions within the Debtor Finance business. We note that whilst the above sensitivities represent isolated assumption changes in key revenue drivers, the Debtor Finance business is currently experiencing a trade-off between volume growth and margin deterioration, which is largely driven by pressure from larger Client exposures to cap variable administration fees. However, volume driven revenue growth is expected to more than offset adverse margin impacts as evidenced in FY18 and therefore, exposure growth is considered the most important value driver for Scottish Pacific
- as Scottish Pacific’s business model is characterised by a “high touch” Client service model, staff costs represent the majority of its operating cost base. Therefore, organic “on book” exposure growth yields higher NPV outcomes than under a scenario where the same exposure growth is driven by net Client growth as this in turn would also likely trigger an associated increase in staff costs to win and service the additional Clients
- NPV is less sensitive to changes in the key value drivers of the Specialised Finance business as this business represents still a relatively small, albeit fast growing, proportion of the overall business
- whilst NPV is sensitive to changes in bad debt experience, particularly due to Scottish Pacific’s equity exposure in the Funding Vehicle being subordinated to both senior and mezzanine lenders, a more significant threat to the business is the potential occurrence of a significant one-off fraudulent bad debt event. Such an event would not only result in an adverse one-off cash flow impact but also likely limit the focus on origination and operational efficiencies over the short to medium-term as the business model and risk management processes underwent a thorough review, and

- NPV is also sensitive to changes in the cost-to-income ratio. Whilst the cost-to-income ratio benefits from economies of scale and provides a key lever for Management to reduce the earnings impact from a potential revenue shortfall through tighter cost management, improvements in Scottish Pacific's cost-to-income ratio are constrained by the cost structure associated with its "high touch" Client service model and the industry-wide relatively high level of Client attrition.

As illustrated above, small changes in certain assumptions can have a disproportionate impact on value. In addition, there are inherent uncertainties about future events and a range of potential outcomes for key assumptions, including:

- **higher or lower net client growth** may be impacted by:
 - the effectiveness of Scottish Pacific's existing distribution network and its ability to increase the relevance of its direct-to-market channel
 - the ability to minimise Client attrition rates supported by a relevant complementary Specialised Finance product portfolio
 - the competitive environment, which whilst currently supporting non-bank lenders in expanding their exposures to SMEs with tightening of credit by major banks, is also threatened by disruption from an active FinTech sector
 - the ability to increase market penetration for Debtor Finance products, supported by a complementary Specialised Finance product offering, as well as technological enhancements that add value to Clients.
- **higher or lower organic "on book" exposure growth** may be impacted by:
 - the general economic environment, which is particularly relevant for capital light, fast growing SMEs to which Scottish Pacific's loan book is primarily weighted towards
 - the political environment, which is currently supportive of the growth of SMEs through various policy initiatives, including a gradual proposed reduction in the corporate tax rate for SMEs
 - changes in the Client mix, both in terms of size and diversification across industries and geographies, which may also impact revenue margins and the risk profile of the underlying collateral
 - changes in borrowing ratios (as a % of the face value of allowable receivables), noting the current market trend of borrowing ratios of 85% (up from historical levels of around 80%)
 - the availability of capital efficient funding to support exposure growth.
- **higher or lower net revenue margin** may be impacted by:
 - the ability to mitigate the risks associated with the experienced trade-off between volume growth and revenue margin deterioration
 - changes in the product mix driven by an increase in the penetration of Specialised Finance products

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- the ability to pass on potential increases in funding costs to Clients which in turn may be impacted by the competitive and economic environment
- changes in the mix or cost of funding driven by potential changes in the competitive, regulatory or macroeconomic environment.
- **higher or lower cost-to-income ratio** may be impacted by:
 - the ability to increase the scale of the business which is the key driver for operational efficiencies
 - the realisation of cost synergies from the full integration of prior acquisitions onto the Aquarius platform
 - the opportunity to realise operational efficiencies from new technologies
 - the ability of Management to tighten cost controls to mitigate the impact of unfavourable market trends
 - changes in the product mix and/or business model which is currently weighted towards a “high touch” Client service model.
- **higher or lower bad debt losses** may be impacted by:
 - the effectiveness of Scottish Pacific's risk management framework
 - changes in lending criteria which in turn may deteriorate Scottish Pacific's relatively conservative loan-to-value ratios
 - changes in the mix of Clients and products which in turn may adversely affect the risk diversification of Scottish Pacific's loan exposures
 - the potential occurrence of a significant one-off fraudulent bad debt event.

It should be noted that the sensitivity analysis performed in the Financial Model (upon which KPMG Corporate Finance's DCF analysis is based) has considered assumption changes in isolation and interrelationships between certain key variables may not be fully automated (e.g. the trade-off between volume growth and margin deterioration). Nor does it take into account Management's ability to mitigate adverse outcomes.

8.3.3 Scenario analysis

KPMG Corporate Finance has developed a range of scenarios for Scottish Pacific in order to illustrate the impact on value of potential changes in key variables in certain market environments. It should also be noted that there is a wide range of other potential outcomes for each variable and even more combinations of those outcomes.

KPMG Corporate Finance has developed the following scenarios.

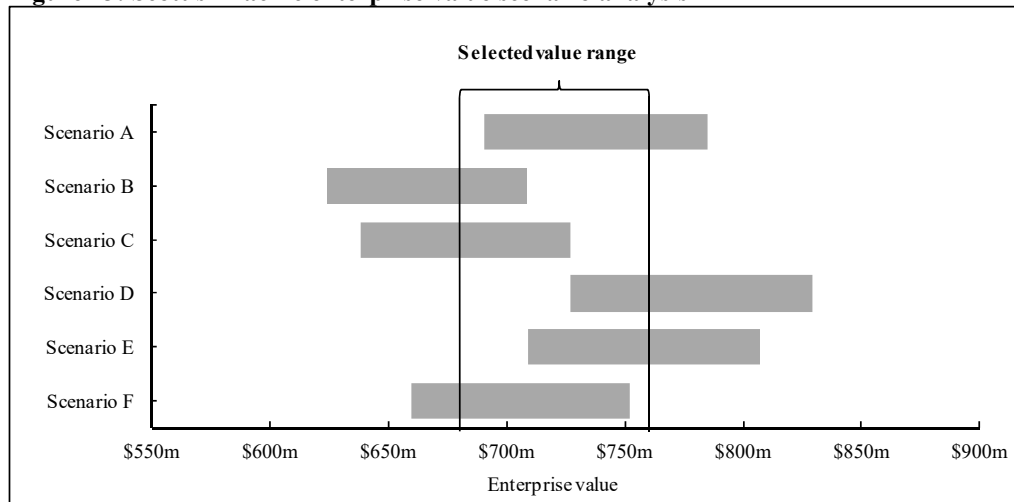
Table 19: Scottish Pacific scenario analysis

| Scenario | Description |
|------------|--|
| Scenario A | Base Case assumptions as set out in section 8.3.1 |
| Scenario B | Scenario A, except 100 bps lower net client growth per annum for the Debtor Finance business from FY19 to FY27 (resulting in no net client growth from FY22), accompanied by a 200 bps higher cost-to-income ratio (consolidated basis) from FY19 to FY27 |
| Scenario C | Scenario A, except 25 bps lower net revenue margin (as a percentage of average monthly exposure) for the Debtor Finance business from FY19 to FY27, compounded by an increase in bad debt losses to a "through the cycle" level of 30 bps of the average monthly exposure of the Debtor Finance business from FY19 to FY27 |
| Scenario D | Scenario A, except 100 bps higher turnover / average exposure growth per annum for the Debtor Finance business from FY19 to FY27, partly offset by a 1 bps reduction in the net management fee for the Debtor Finance business from FY19 to FY27 |
| Scenario E | Scenario A, except that the revenue forecasts for the Specialised Finance business are assumed to be outperformed by 15% each year from FY19 to FY27 (resulting in the net revenue share of the Specialised Finance business to increase from 18% to 20% by FY27), whilst a 5.0% increase in Scottish Pacific's equity contribution requirement (as a percentage of growth in exposure) is assumed from FY19 to FY27 to fund the accelerated growth of new loan originations in the Specialised Finance business |
| Scenario F | Scenario A, except for an assumed significant one-off fraudulent bad debt event in FY19 of \$20.0m, accompanied by a reduction in net client growth of 100 bps in FY19 and 50 bps in FY20 and an increase of the cost-to-income ratio of 100 bps in FY19 and 50 bps in FY20, as such an event would also likely limit the business to focus on origination and operational efficiencies over the short to medium-term as the business model and risk management processes would undergo a thorough review |

Source: KPMG Corporate Finance analysis

The range of values for each scenario, based on our selected discount rate range of 10.0% to 11.0%, is illustrated in the following chart.

Figure 13: Scottish Pacific enterprise value scenario analysis



Source: KPMG Corporate Finance analysis

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Scenario B reflects the risk that the net client growth in the Debtor Finance business cannot be achieved as assumed under Scenario A. This may be driven by various factors (or a combination thereof) including:

- the loss of a key referrer from Scottish Pacific's distribution network
- an increase in Client attrition without an offsetting increase in new Client origination
- an intensifying competitive environment with potential disruption from the FinTech sector, and
- the inability to increase overall market penetration for Debtor Finance products.

In particular, the industry-wide experience of high Client attrition rates creates a significant hurdle in maintaining a stable Client base. In addition to assuming a relatively flat Client base for the Debtor Finance business, Scenario B also takes into account the potential adverse flow-on effects to the cost-to-income ratio associated with reduced scale benefits and increased investments in marketing and sales to mitigate the risks of a deteriorating Client base. Whilst a slowdown in new Client origination without an offsetting decrease in attrition is a plausible scenario, it should be noted that there are a range of mitigating factors including:

- Scottish Pacific's leading market position and its difficult to replicate distribution network, and
- the potential to reduce Client attrition through complementary Specialised Finance products.

Scenario C follows the recent trend of a deteriorating net revenue margin experienced in the Debtor Finance business and shows the material impact on NPV of a further long term margin compression over and above the compression that is already assumed under Scenario A. Further margin pressure will more likely be driven by larger Clients pushing to cap variable administration fees rather than a sustainable compression in Scottish Pacific's net interest margin. Even under a scenario of increasing funding costs due to tightening credit markets, Scottish Pacific would be likely to maintain its net interest margin (to at least some extent) by passing on any increase in the cost of funds to its Clients. This is supported by Scottish Pacific's business model (as a wholesale procurer of funding provided by banks and a wholesale lender to its Clients) which creates a natural hedge for its net interest margin. However, increasing funding costs due to tightening credit markets may still put pressure on Scottish Pacific's Clients and underlying debtors which may elevate the level of credit losses in the Debtor Finance business from the historically low levels currently experienced. Further, an increase in concentration risk driven by larger clients may also increase the risk of credit losses. As such, Scenario B also assumes credit losses to revert to the level experienced over the economic cycle.

Scenario D reflects the opportunity of the Debtor Finance business to benefit from more favourable economic conditions through higher organic "on book" exposure growth than that assumed under Scenario A. Scottish Pacific's Client book is weighted towards capital light, higher growth SMEs resulting in "on book" Debtor Finance exposure growth of roughly three times GDP, as evidenced by historic experience. As such, Scottish Pacific is likely to benefit from a favourable economic environment for SMEs which is further supported by the government's growth agenda for SMEs. In this regard, we consider an increase in the average exposure per customer growth from a CAGR of 5.5% over the Forecast Period as assumed under Scenario A to 6.5% a plausible scenario. However, Scenario D also recognises the recently experienced trade-off between volume growth and revenue margin deterioration by assuming a 1 bps reduction in the net management fee over the Forecast Period.

Scenario E shows the sensitivity of the NPV if the Specialised Finance business outperforms the growth expectations assumed under Scenario A, which assumes a balanced approach in pursuing identified growth opportunities which complement the Debtor Finance business without compromising its responsible approach to managing credit risk. Accelerated growth of the Specialised Finance business is considered a plausible outcome as:

- new products have recently been introduced to the market that complement Scottish Pacific's Debtor Finance offering and provide value add to its Clients
- the existing Client base of the Debtor Finance business could be better leveraged to accelerate the penetration of complementary Specialised Finance products, and
- the competitive environment currently supports non-bank lenders (and in particular Scottish Pacific due to its leading market position) in expanding their exposures to SMEs with tightening of credit by major banks.

However, accelerated growth of the Specialised Finance business also creates funding challenges given the current relevant lending criteria of the Funding Vehicle do not support an increasing portion of new loan originations in the Specialised Finance business. Whilst Management can actively manage this risk through negotiations with its senior and mezzanine lenders, Scenario E also assumes higher equity contributions would be required to fund the assumed accelerated growth of the Specialised Finance business.

Scenario F highlights the potential impact on NPV from the occurrence of a significant one-off fraudulent bad debt event. Scottish Pacific's underwriting and risk management model, which is characterised by a high level of collateral and a well-diversified loan portfolio, has contributed to Scottish Pacific experiencing low levels of credit losses throughout the economic cycle. However, the industry is always susceptible to the risk of a significant one-off fraudulent bad debt event, as was the case for one of the major banks which suffered a significant credit loss in a fraudulent event that triggered its subsequent exit from the Debtor Finance industry. Whilst the average exposure of Scottish Pacific's Clients is generally smaller than those of banks still active in the market, a significant fraudulent bad debt event would not only result in an adverse one-off cash flow impact but also likely limit the focus on origination and operational efficiencies over the short to medium-term as the business model and risk management processes underwent a thorough review, which is reflected in Scenario F. Whilst the chance of occurrence of Scenario F may be considered remote relative to the other scenarios, it is relevant in assessing the risks inherent in the cash flows.

8.3.4 NPV conclusion

Analysis of the scenarios above indicates that Scenario A represents a reasonably balanced weighting of Scottish Pacific's growth potential and downside risks, albeit that challenge exists to maintain the growth profile of the business over the entire Forecast Period. As such, in determining a value range, KPMG Corporate Finance has selected a value for the operating business of Scottish Pacific (after consideration of all of the Scenarios and the various factors impacting each of them) to be in the range of \$680 million to \$760 million. This range sits within the ranges of NPV under all scenarios and largely overlaps with the range derived under Scenario A, with a slight downside bias to also account for the ongoing

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operational risks identified. On this basis, we consider the selected value range appropriately takes into consideration the risks inherent in the cash flows.

8.4 Other assets and liabilities

We have not identified any other assets of significant value that are not covered by the cash flow forecasts derived from the Financial Model and therefore could be considered as surplus assets.

Further, based on representations by Management, we are not aware of any contingent liabilities that would warrant a significant adjustment to our assessed value for the operating business of Scottish Pacific.

8.5 Adjusted net debt

In relation to Scottish Pacific's net debt as at 31 August 2018, we note:

- Scottish Pacific treats the senior and mezzanine facilities as working capital, with the corporate debt treated as external interest bearing liabilities utilised to fund general corporate activity, as well as to support Specialised Finance products that do not meet the relevant lending criteria of the Funding Vehicle, and
- Management advised that its unrestricted cash and cash equivalents form an integral part of Scottish Pacific's working capital management and that its unrestricted cash balance of \$11.5 million as at 31 August 2018 is in-line with Scottish Pacific's minimum cash balance, which is required to ensure Scottish Pacific's substantial and volatile daily cash inflows and outflows can be managed appropriately. Accordingly, Scottish Pacific's unrestricted cash and cash equivalents at 31 August 2018 are not considered to be surplus for valuation purposes.

Scottish Pacific's net debt as at 31 August 2018 has been adjusted for the following additional debt drawdowns required to fund:

- the final dividend for FY18 of \$13.9 million, which was declared on 28 August 2018 and due to be paid on 19 September 2018, and
- the \$6.1 million cash consideration payable by Scottish Pacific under the Scheme upon cancellation of all outstanding options related to the FY17 and FY18 LTI Plan.

Scottish Pacific's adjusted net debt is shown in the following table.

Table 20: Scottish Pacific adjusted net debt as at 31 August 2018

| \$ millions | Section reference | |
|--|-------------------|---------------|
| Total debt at 31 August 2018 | 7.2.5 | (70.0) |
| Less: Surplus cash at 31 August 2018 | 7.2.5 | - |
| Net debt | | (70.0) |
| Add: Debt drawdown required for final FY18 dividend payout | 7.6.4 | (13.9) |
| Add: Debt drawdown required for cancellation of options | 7.5.1 | (6.1) |
| Adjusted net debt | | (90.0) |

Source: Scottish Pacific Management; KPMG Corporate Finance analysis



8.6 Cross-check

The implied multiples from KPMG Corporate Finance's assessed value range for 100% of the equity in Scottish Pacific have been cross-checked having regard to the P/E and P/B multiples of comparable listed Australian Debtor Finance and Specialised Finance providers and transactions involving selected Australian Debtor Finance and Specialised Finance providers. These multiples are summarised below and set out in detail in Appendix 5.

8.6.1 Implied multiples

We have valued 100% of the equity in Scottish Pacific in the range of \$590 million to \$670 million, including potential savings in relation to public company costs, which are the only assessed direct synergies considered to be available to a hypothetical purchaser.

The following table sets out the implied historical and forecast P/E and P/B multiples of Scottish Pacific based on our valuation.

Table 21: Scottish Pacific implied multiples

| | Variable (\$ million) | Value range | |
|---|--------------------------|--------------|--------------|
| | | Low | High |
| Value of 100% of the equity in Scottish Pacific (\$ million) | | 590.0 | 670.0 |
| P/E multiple | NPATA | | |
| FY18 actual | 32.7 | 18.0 | 20.5 |
| FY19 (broker consensus) | 38.8 | 15.2 | 17.3 |
| P/B multiple | Net assets | | |
| FY18 actual | 206.6 | 2.9 | 3.2 |
| FY19 (broker consensus) | 214.1 | 2.8 | 3.1 |

Source: KPMG Corporate Finance analysis

In relation to the calculation of the implied multiples, we note:

- we have added back the \$1.1 million adjustment for the Bad and Doubtful Debts provision to FY18 reported NPATA of \$33.8 million as we consider this is a one-off adjustment which does not reflect underlying NPATA, and
- Scottish Pacific has not released specific earnings forecasts for FY19 or beyond. Accordingly, the implied forecast multiples are based on the median of broker consensus forecasts for Scottish Pacific.

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8.6.2 Sharemarket evidence

The following table sets out the implied P/E and P/B multiples for selected listed companies engaged in the Australian Debtor Finance and Specialised Finance industries.

Table 22: Sharemarket evidence – Australian Debtor Finance and Specialised Finance

| Company | Market capitalisation ¹ (\$ million) | P/E multiple ² | | P/B multiple ³ | | |
|--|--|---------------------------|-----------------------|---------------------------|-----------------------|--|
| | | Historical ⁴ | Forecast ⁵ | Historical ⁶ | Forecast ⁵ | |
| Debtor Finance | | | | | | |
| CML Group Limited | A\$ 117 | 15.2 | 12.2 | 2.9 | 2.5 | |
| Equipment Finance | | | | | | |
| Axesstoday Limited ⁷ | A\$ 106 | 15.1 | 8.4 | 1.5 | 1.5 | |
| Thorn Group Limited ⁸ | A\$ 98 | 6.9 | 11.6 | 0.5 | n/a | |
| Fleet Management & Salary Packaging | | | | | | |
| McMillan Shakespeare Limited | A\$ 1,387 | 14.8 | 14.0 | 4.0 | 3.5 | |
| SG Fleet Group Limited | A\$ 999 | 13.5 | 12.9 | 4.0 | 3.6 | |
| Eclix Group Limited ⁹ | A\$ 765 | 10.1 | 9.4 | 0.9 | 0.7 | |

Source: S&P Capital IQ; Mergermarket; Company announcements; Company financial statements; KPMG Corporate Finance analysis

Notes:

1. Market capitalisation is calculated using closing prices on 21 September 2018
2. P/E multiple represents market capitalisation divided by NPATA. NPATA represents net profit after tax excluding abnormal and extraordinary items, amortisation and impairment charges pertaining to acquired intangibles on a tax-effected basis
3. P/B multiple represents market capitalisation divided by book value of common equity
4. Historical P/E multiple is reflective of the latest reported financial year. If the latest reported financial year was prior to 30 June 2018, a last twelve months (LTM) figure using company annual reports has been used as a proxy
5. Forecast P/E and P/B multiples are based on consensus broker forecasts
6. Historical P/B multiples are reflective of the company's latest reported financial position, including half year reports released to the market
7. On 12 September 2018, Axsesstoday's shares were placed in a trading halt and subsequently under voluntary suspension due to a business strategy review. The suspension was extended on 24 September 2018 due to pending management changes in addition to the strategic review
8. The earnings basis used to calculate Thorn Group Limited's forecast P/E multiple reflects the midpoint of the FY19 earnings guidance range of \$7.0 million to \$10.0 million released by the company
9. Eclix Group Limited's forecast P/B multiple is based on the average FY19 multiples calculated by 5 independent brokers

In relation to the sharemarket evidence, we note:

- multiples are based on share market prices and therefore do not include a control premium
- there are limited publicly listed companies that are directly comparable to Scottish Pacific and, as such, we have included companies influenced by similar macroeconomic and industry-specific drivers in the broader Specialised Finance industry with a lending focus on SMEs
- the comparable companies have a 30 June financial year end, with the exception of Thorn Group Limited (Thorn) and Eclix Group Limited (Eclix), which have a 31 March and 30 September financial year end respectively
- P/E multiples for all comparable companies are based on NPATA, which is considered to provide a more meaningful measure of the operating performance and underlying earnings of the businesses. In this regard, we note that Axsesstoday and Thorn have limited amortisation of acquisition intangibles due to their primary focus on organic growth and, therefore, the observed NPAT and NPATA are consistent with respect to these companies



- CML Group Limited (CML) is a non-bank Debtor Finance company that is considered the most directly comparable company to Scottish Pacific. However, unlike Scottish Pacific, it targets the smaller end of the SME market. CML has undertaken an acquisitive expansion strategy to grow the scale of its Factoring business and attain considerable market share. Since April 2015, CML has successfully integrated four Debtor Finance businesses for a total consideration of approximately \$100 million, with the most recent acquisition being of Thorn's Trade and Debtor Finance (TDF) division, which completed in February 2018. Its relatively high trading multiples largely reflect material interest cost savings and margin improvements anticipated from its new funding structure, which replaced high-cost corporate bonds with the expansion of an existing institutional banking facility on improved terms. The full earnings impact of the TDF acquisition and the new pricing conditions for its clients are expected to be realised in FY19
- equipment finance providers have similarities to Scottish Pacific in that they facilitate working capital funding for SMEs as they seek growth, although they are considerably smaller than Scottish Pacific. In relation to these companies, we note:
 - Axesstoday offers flexible equipment financing solutions, primarily to the hospitality and transport sectors, and has expanded into providing short-term business loans in the last year (accounting for 13% of FY18 revenue). Axesstoday has a relatively high historical P/E multiple of 15.1 times, in contrast to its forecast multiple of 8.4 times, mainly driven by its short operating history and strong earnings outlook. Earnings growth is expected to be realised through ongoing product expansion, penetration into new sectors and geographies (such as Canada), substantial technological investment and capital structure optimisation. Most recently, however, Axesstoday's share price has experienced a sharp decline (approximately 44%²³) following disclosure of changes to its arrears reporting as required by securitisation providers, which triggered a breach of debt covenants. Its shares are currently under an extended voluntary suspension due to pending management changes and a strategic review of the business and, therefore, its multiples are likely impacted by those recent events
 - Thorn is considered less comparable as its operations are now primarily focused on appliance rentals following the sale of its TDF division to CML. In addition, a number of issues have led to the deterioration of both its earnings and market capitalisation, which has almost halved over the last 12 months²⁴, resulting in its multiples being less meaningful. The issues have included a significant profit guidance downgrade (approximately 30%) in October 2017, as well as the litigation currently faced by Thorn as a result of its past lending practices, including a \$50 million class action pending and a court-ordered \$2 million penalty arising from an investigation conducted by ASIC. In FY18, Thorn reported an after-tax loss of \$3.6 million and its lower P/E multiple of 6.9 times normalised NPATA, adjusted to exclude earnings from discontinued operations (\$2.8 million) and impairment charges (\$20.7 million), possibly reflects tougher trading conditions in the consumer leasing market and its weakened outlook. Based on the

²³ Axesstoday's share price declined from a closing price of \$2.40 on 24 August 2018 to \$1.70 on 28 August 2018

²⁴ Thorn's market capitalisation was \$189.5 million on 25 September 2017 and \$96.8 million on 25 September 2018

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midpoint of the FY19 earnings guidance range released by Thorn (\$7 million to \$10 million), its forecast P/E multiple is 11.6 times

- Australian operators in the fleet management industry are characterised by a principally commercial client base and diversified base of operations, offering vehicle leasing services, salary packaging services as well as associated insurance products. These companies are subject to regulatory risks in relation to tax regimes and commissions, driven by a different funding mix and are larger in scale relative to Scottish Pacific. In relation to these companies, we note:
 - fleet leasing and management P/E multiples show a degree of cyclicity, with the industry currently recovering from the downturn experienced between 2011 and 2014. However, forward P/B multiples have remained relatively stable over time
 - McMillan Shakespeare Limited (MMS) is the largest domestic participant in the salary packaging and novated leasing market, with annual revenue of \$545 million. It is substantially larger than the other comparable companies with operations across New Zealand and the UK supporting its relatively higher earnings multiples. MMS's higher P/B multiples are driven by its lower book values, potentially due to its less capital intensive funding model
 - SG Fleet Group Limited (SG Fleet) has a limited free float (approximately 32% as at 25 September 2018), which may impact the relevance of its trading multiples. Whilst it shares the same geographical footprint as MMS, SG Fleet operates a capital light business model by financing its commercial fleet off-balance sheet under principal-agent style agreements, explaining its relatively high P/B multiples (4.0 times historical and 3.6 times forecast), and
 - Eclix lacks international presence compared to its competitors, with operations limited to the Australian and New Zealand markets. Eclix's share price declined significantly in August 2018 after announcing a downgrade to its guidance for FY18 earnings, however, recovered shortly after when an indicative takeover bid by SG Fleet was announced (which was ultimately rejected). The above factors likely explain its lower P/E multiples (10.1 times historical and 9.4 times forecast NPATA). Eclix's diverse funding profile includes both on and off-balance sheet arrangements, utilising warehouse facilities, asset-backed securitisation as well as principal and agency agreements. This results in a higher book value (\$885 million as at 31 March 2018), resulting in lower P/B multiples (0.9 times historical and 0.7 times forecast).

8.6.3 Transaction evidence

The following table sets out the P/E and P/B multiples implied by recent transactions involving businesses in the Australian Debtor Finance and Specialised Finance industries.

Table 23: Transaction evidence – Australian Debtor Finance and Specialised Finance

| | | Acquired | Consideration | P/E Multiple ² | | P/B Multiple ³ | |
|-------------------------------|---|-----------|-------------------------|---------------------------|----------|---------------------------|----------|
| Date | Target | stake (%) | (millions) ¹ | Historical | Forecast | Historical | Forecast |
| Scottish Pacific transactions | | | | | | | |
| Jul-16 | Initial Public Offering ⁴ | 100% | A\$ 445 | 20.0 | 14.0 | 3.1 | 2.6 |
| Dec-15 | Bibby Financial Services (Australia) ⁵ | 100% | A\$ 120 | 17.4 | 11.2 | n/a | n/a |
| Other transactions | | | | | | | |
| Aug-18 | Eclix Group Limited ⁶ | 100% | A\$ 818 | 10.8 | 10.4 | 0.9 | n/a |
| Jul-17 | Pepper Group Limited ⁷ | 100% | A\$ 696 | 11.4 | 10.3 | 1.5 | n/a |
| Jan-17 | UDC Finance ⁶ | 100% | NZ\$ 660 | 11.3 | n/a | 1.6 | n/a |
| Jul-16 | RESIMAC | 100% | A\$ 134 | 10.3 | n/a | 1.6 | n/a |
| Oct-15 | Esanda (dealer finance portfolio) ⁸ | 100% | A\$ 8,230 | n/a | 11.4 | 1.5 | n/a |
| Oct-15 | Fisher & Paykel Finance | 100% | NZ\$ 294 | 9.9 | n/a | 2.9 | n/a |
| Jan-14 | Bluestone Group Pty Limited | Majority | A\$ 120 | 9.0 | n/a | n/a | n/a |

Source: Company financial statements; company announcements; press releases; broker reports; S&P Capital IQ; Mergermarket; KPMG Corporate Finance analysis

Notes:

1. Consideration represents the implied 100% equity value of the company displayed in millions as per the local currency relevant to the transaction
2. P/E multiple represents the consideration paid divided by NPATA
3. P/B multiple represents the consideration paid divided by the book value of common equity
4. IPO transactions exclude a premium for control. P/E multiples are based on pro-forma NPATA as outlined in the prospectus, noting that pro-forma FY16 NPATA (which forms the basis for the historical P/E multiple) includes a pro-forma full year results contribution from Bibby, whilst the results from the acquisition of GE's and Suncorp's Debtor Finance portfolios are only reflected from the date of their respective completion, i.e. two months of GE's Debtor Finance portfolio results and one month of Suncorp's Debtor Finance portfolio results. The full run rate of synergies expected from these acquisitions, in particular from the Bibby acquisition, is also not reflected in the historical P/E multiple
5. The forecast P/E multiple for Bibby is based on \$5.1m of expected annual pre-tax cost synergies as outlined in the prospectus
6. The proposed acquisitions of Eclix and UDC Finance are indicative offers that did not proceed to completion
7. Pepper's forecast P/E multiple is based on guidance for underlying NPAT for the 12 months ending 31 December 2017
8. Based on a book value of net lending assets of \$7.8 billion, a book value of equity of \$0.8 billion, and the announcement by Macquarie that the acquisition is expected to be 10 cents per share earnings accretive in its first full year

In relation to the transaction evidence, we note:

- the transactions involving Scottish Pacific occurred at multiples considerably higher than the other transactions observed. In this regard:
 - on 13 July 2016, Scottish Pacific Shares commenced trading, with the offer price implying multiples of 20.0 times pro-forma FY16 NPATA and 14.0 times pro-forma FY17 NPATA. These implied multiples do not include a control premium. As previously noted, pro-forma FY16 NPATA does not reflect a full year results contribution from the acquisition of GE's and Suncorp's Debtor Finance portfolios nor the full run rate of synergies expected from the Bibby acquisition, whilst FY17 results fell short of the prospectus estimates (approximately 7.5%), as well as the subsequently downgraded guidance released to the market
 - the integration of Bibby, then the third largest independent Debtor Finance provider in Australia by turnover, was completed at a relatively high historical P/E multiple of 17.4 times NPATA,

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reflecting the significant synergistic benefits expected from the highly complementary businesses and the elevation of Scottish Pacific's market position. Pre-tax annual cost synergies of \$5.1 million were forecast in FY17, primarily related to the elimination of duplicated shared services costs.

- limited publicly available information is available in relation to the acquisitions of Specialised Finance providers. Although these targets are not considered to be directly comparable to Scottish Pacific, we have included them as a reference as they are influenced by similar macroeconomic and industry-specific drivers. The historical P/B multiples sit within a reasonably tight range of 0.9 times to 1.6 times (with the exception of Fisher & Paykel Finance), at a mean of 1.4 times
- the recent proposal put forward by SG Fleet to acquire industry rival, Eclix, was rejected by Eclix on the basis that the terms did not reflect the long term value of the business and synergies from an industry combination. The cash and scrip bid valued Eclix at a premium of 17.8% to its last closing price, implying a historical P/E multiple of 10.8 times. The implied P/B multiple of 0.9 times reflects Eclix's higher book value driven by its diverse funding mechanism, which employs both on and off-balance sheet arrangements (contrary to its peers)
- the acquisition of Pepper Group Limited (Pepper) is arguably the most relevant transaction outside of those involving Scottish Pacific. Pepper is a specialist lending and loan servicing company that targets a number of asset classes in Australia, NZ and internationally. It services both residential and commercial sectors, including mortgage lending as well as auto and equipment finance. Whilst the comparability of the transaction is reduced by Pepper's strategic focus on the consumer market, the nature of the transaction draws similarities to the Scheme, being a private equity buyout of a listed Australian company with similar scale and deal value. The acquisition rationale was underpinned by KKR's access to a significant supply of capital that can be applied to accelerate Pepper's long term growth initiatives. The transaction implied a historical P/E multiple of 11.4 times
- the proposed acquisition of UDC Finance, a wholly-owned subsidiary of ANZ Limited, implied a historical P/E multiple of 11.3 times. Supported by a NZ\$1 billion committed facility from its parent, UDC is non-bank lender that provides asset-based equipment finance to businesses in New Zealand. It is less comparable due to its limited geographical exposure. The proposed sale to the Chinese conglomerate, HNA, was denied by New Zealand's Overseas Investment Office due to the opaque ownership structure disclosed, with the sale agreement subsequently terminated by ANZ Limited
- the sale of the Esanda dealer finance portfolio, which comprises retail and wholesale dealer finance on motor vehicles across Australia, was expected to complement Macquarie Leasing, the automotive and equipment financing division of Macquarie Group. The competitive process (other bidders included Pepper, York Capital Management and HNA) resulted in a deal value of \$8.2 billion, reflective of the acquisition of a loan book without any funding attached. In its first full year of acquisition, the deal was expected to be accretive by adding 10 cents to Macquarie's earnings per share, implying a forecast P/E multiple of 11.4 times



- transactions involving smaller companies (below \$300 million in equity value) occurred at historical P/E multiples in the range of 9.0 times to 10.3 times. In relation to these transactions, we note:
 - the all-scrip transaction between RESIMAC and Homeloans, previously two listed participants in the residential mortgage lending sector, created a merged group with a combined loan portfolio in excess of \$12 billion and new annual originations exceeding \$3 billion. Homeloans was a listed Australian company engaged in mortgage origination and management of home loan mortgages and RESIMAC provided non-bank lending services. The transaction was underpinned by the expected revenue and operational synergies identified. On completion, RESIMAC shareholders held 72.5% of the merged group and existing Homeloans shareholders held the remaining 27.5%
 - Fisher & Paykel Finance was a leading provider of consumer finance in New Zealand with a quality portfolio of respectable credit card brands that had a combined 21% market share. The transaction was expected to significantly enhance the operational scale of FlexiGroup through material cost synergies and facilitated access to new industry channels both in Australia and New Zealand. The transaction implied a historical P/E multiple of 9.9 times, however excluding expected synergies, the implied historical P/E multiple reduces to 8.8 times, and
 - the Lloyds Development Capital (LDC) acquisition of an undisclosed majority stake in Bluestone was completed at a historical P/E multiple of 9.0 times. Bluestone provides asset and capital management services, including loan origination, consumer loan purchasing and debt servicing across Australia and the UK. The implied multiple reflects the limited synergies expected from the management buyout and a less than full premium for control due to the less than 100% interest acquired.

8.6.4 Summary

Although there is limited directly comparable company and transaction evidence available, we consider the market evidence presented supports the valuation of the Scottish Pacific business derived under the primary DCF analysis.

The IPO of Scottish Pacific occurred at a historical P/E multiple of 20.0 times and a forecast P/E multiple of 14.0 times, excluding any premium for control. We would expect the implied multiples of Scottish Pacific today to be lower than at the time of the IPO (after adjustment for control), given the significant growth achieved post-IPO and the lower growth profile expected over the medium term. It is also noted that the historical P/E multiple implied by the IPO appears inflated as it does not reflect a full year results contribution from the acquisition of GE's and Suncorp's Debtor Finance portfolios nor the full run rate of synergies expected from the Bibby acquisition.

Scottish Pacific's acquisition of the Australian and New Zealand operations of Bibby UK occurred at a historical P/E multiple of 17.4 times and a forecast P/E multiple of 11.2 times, which reflected the significant synergy benefits expected at the time. Although such synergy benefits are not available in valuing Scottish Pacific today, offsetting some of the reduction required to adjust for the synergies is the larger size of the Scottish Pacific business, its position as a market leader and the robust platform for growth it has established. As such, we would expect Scottish Pacific to be valued above the range of multiples implied by the acquisition of Bibby in December 2015.

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CML is considered the most comparable company to Scottish Pacific, although it is smaller in size and holds a smaller market share than Scottish Pacific. As such, we would expect Scottish Pacific to be valued at or above CML's historical P/E multiple of 15.2 times and forecast P/E multiple of 12.2 times (after adjustment for control), and historical P/B multiple of 2.9 times.

Although not directly comparable, the Specialised Finance companies trade at implied historical P/E multiples between 10.1 times and 15.1 times. Given the different market dynamics facing these businesses, we would expect Scottish Pacific to be valued above this range (after adjustment for control). The transactions involving Specialised Finance providers are slightly lower than the trading multiples, reflecting the nature of the transaction, the target market and underlying growth profile.



Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Sean Collins, Ian Jedlin and Stefan Seider. Sean is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Chartered Institute for Securities and Investments in the United Kingdom and holds a Bachelor of Commerce from the University of Queensland. Ian is a member of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Securities Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Stefan holds a Masters Degree in Business Administration from LMU – Munich Graduate School of Management. Each has a significant number of years' experience in the provision of corporate financial advice including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Scheme is in the best interests of Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Scheme Booklet or any other document prepared in respect of the Scheme. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole or other documents prepared in respect of the Scheme.

We note that the forward-looking financial information prepared by Scottish Pacific does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

Independence

KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Scottish Pacific for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

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Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Scheme Booklet to be issued to the shareholders of Scottish Pacific. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.



Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information

- the Scheme Booklet
- the Scheme Implementation Agreement entered into on 24 October 2018, which amended and replaced the Original SIA released to the ASX on 24 September 2018
- Annual Reports and management briefing presentations of Scottish Pacific for FY16 to FY18
- Scottish Pacific's IPO Prospectus dated 22 June 2016
- press releases, public announcements, media and analyst presentations material and other public filings by Scottish Pacific for the ASX, including information available on the company's website
- brokers' reports and recent press articles on Scottish Pacific
- security market data and related information regarding comparable companies and transaction targets
- various industry reports and statistics prepared by the Australian Government and other relevant industry organisations including Debtor and Invoice Finance Association, Australian Bureau of Statistics, Australian Small Business and Family Enterprise Ombudsman, Australian Taxation Office, Factor Chain International, NSW Business Chamber, Cambridge Centre for Alternative Finance and Australian Centre for Financial Studies, and
- financial and economic information from IRESS, S&P Capital IQ, Bloomberg, Thomson Financial Securities, KPMG Economics and Connect4.

Non-public information

- Scottish Pacific FY19 budget and business plan
- cash flow model for Scottish Pacific for the period 1 July 2018 to 30 June 2021
- Scottish Pacific management accounts for FY16 to FY18 and FY19 to-date (August 2018)
- employee share option details
- shareholder register analysis, and
- board papers, presentations, working papers and other confidential documents of Scottish Pacific.

In addition, we have held discussions with, and obtained information from, the senior management of Scottish Pacific and its advisors.

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Appendix 3 – Debtor Finance industry

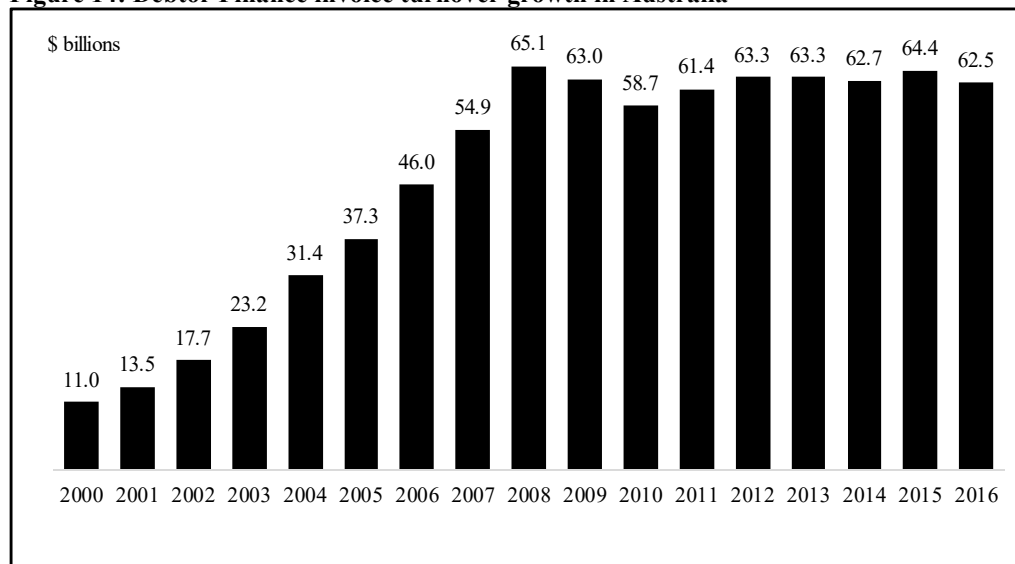
Industry overview

Scottish Pacific operates in the Debtor Finance industry, primarily in Australia.

The industry has expanded significantly since 2000, with invoice turnover increasing from \$11.0 billion to \$62.5 billion in 2016²⁵. This growth has occurred over three distinct phases:

- a period of aggressive growth from 2000 to 2008, with invoice turnover growing at a CAGR of 25%, driven by the increasing contribution of SMEs to Australia's GDP, the growing popularity of Debtor Finance products and a number of new entrants moving in to the industry to capitalise on the market opportunity
- a period of contraction in 2009 and 2010, where invoice turnover declined at a negative CAGR of 5% in the aftermath of the global financial crisis, and
- a period of stabilisation from 2011, with invoice turnover growing at a modest CAGR of 1% as a number of the major banks withdrew from the industry, inhibiting industry growth but allowing specialist financiers, like Scottish Pacific, to increase market share organically or through acquisition.

Figure 14: Debtor Finance invoice turnover growth in Australia



Source: Debtor and Invoice Finance Association²⁶; KPMG Corporate Finance analysis

²⁵ Debtor and Invoice Finance Association (DIFA), Australia; Scottish Pacific company publications – 2016 data represents the 12 months up to September 2016, the last publication available

²⁶ 2016 data represents the 12 months up to September 2016

Scottish Pacific estimates the total market for Debtor Finance solutions in Australia to be approximately 60,000 SMEs, with a further one million companies forming the broader market of SMEs seeking working capital solutions²⁷. With only an estimated 4,000 companies currently using a Debtor Finance product, the penetration rate in Australia is significantly lower than in other developed nations. This provides a significant market opportunity for industry participants if Debtor Finance becomes a more standardised funding option.

Product overview

The Debtor Finance industry provides funding for SMEs using their debtor book as a form of collateral. Debtor Financiers are compensated through a combination of management fees and a net interest margin, which is the gap between the interest rate paid by the SME and the Debtor Financier's funding costs.

Debtor Finance products provide SMEs with funding to bridge the working capital shortfall created by the time lag between the provision of goods and services and the receipt of cash from the customer. The products are typically divided into two categories, Discounting and Factoring, as detailed below:

- *Discounting* involves a client assigning their receivables to a Debtor Financier, in order to access a finance facility. The Debtor Financier holds legal ownership over the assigned receivables, however, the role of the Debtor Financier is not disclosed to the client's debtors, with the client driving the process of managing collections. Discounting is more suitable for larger organisations possessing the system capability to manage their receivables, and
- *Factoring* is similar to Discounting, with the key difference being that under Factoring the role of the Debtor Financier is disclosed to the debtor. The Debtor Financier also bears the responsibility for managing the collection process, resulting in a more intensive process requiring more customer touch points, and as such, Factoring typically commands a premium margin. Factoring is often considered more suitable for smaller businesses that have less sophisticated accounting and debtor management capabilities.

The revenue split between Discounting and Factoring has shifted substantially within the Australian market, with Factoring solutions accounting for an increasingly smaller share of the Debtor Finance market by turnover. This trend has been driven by the heavy focus on Discounting by the banks, the preference by clients not to disclose their Debtor Finance arrangement and the higher cost of Factoring products. By 2016, the contribution of Factoring stood at less than 10% of industry turnover, as illustrated in the below figure²⁸.

²⁷ Scottish Pacific company publications and management disclosures

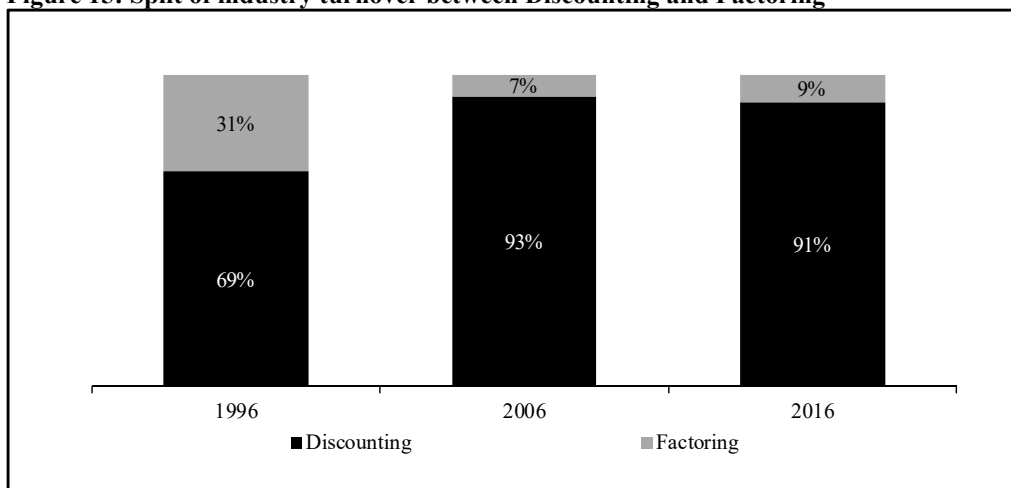
²⁸ Debtor and Invoice Finance Association (DIFA), Australia; Scottish Pacific company publications – 2016 data represents the 12 months up to September 2016 since this was the most recent publication available

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Figure 15: Split of industry turnover between Discounting and Factoring



Source: Debtor and Invoice Finance Association; Scottish Pacific company data; KPMG Corporate Finance analysis

Industry drivers

The key drivers of growth in the Debtor Finance industry are the overall level of GDP growth, the contribution to this growth of the SME sector and the penetration level of Debtor Finance as a funding option. A further influence is the level of Debtor Finance activity undertaken by the major banks, who have historically been the dominant participants in the industry. Each of these drivers is considered below.

Growth in the SME segment

SMEs typically have relatively low access to finance. Although the major banks target SMEs through a number of products, such as equipment finance, overdraft facilities, term loans and credit card financing, these traditional sources of funding can be problematic for some SMEs for a variety of reasons, including inadequate collateral, high gearing and inadequate interest cover ratios. Debtor Finance is an attractive funding option for SMEs since they can pledge their debtor book rather than traditional forms of collateral, such as real estate.

In the last few years, small businesses employing less than 200 people have grown at a CAGR of 2.1% from June 2014 to June 2017²⁹. These small scale SMEs, contributed 57% of GDP and employed 7 million Australians (67% of total employment) as at the end of 2017³⁰.

The Australian government has prioritised the growth of the SME sector as a sustainable way of driving economic growth nationally. This was the key rationale behind the \$5.5 billion small business package announced in July 2015, which included tax cuts for small businesses, tax deductions for asset purchases and a slew of other measures designed to reduce costs for SMEs. In May 2016, the government extended

²⁹ Australian Bureau of Statistics – Counts of Australian Businesses

³⁰ Australian Small Business and Family Enterprise Ombudsman – Affordable capital for SME growth

further support by way of a reduction in the company tax rate for small businesses (those with less than \$10 million in revenue) from 30% to 27.5%, which was the relevant rate for FY18³¹.

Under-penetration of Debtor Finance in Australia relative to other developed economies

Australia's Debtor Finance industry had a penetration rate of 3.9% in 2015, lower than other developed economies such as Germany (6.5%), France (10.6%), Netherlands (8.1%), UK (15.5%) and Singapore (16.3%)³². With the contribution of SMEs growing incrementally, an increase in the penetration rate will enhance growth in the industry over the next few years.

Market awareness is one of the key hurdles which contribute to the low penetration rate of Debtor Finance in Australia. According to a report by the NSW Business Chamber, 54% of Australian SMEs were not aware of Debtor Finance alternatives relative to traditional financing options³³. The awareness of Debtor Finance has increased in recent years, as competition among incumbents becomes more intense and the industry participants heavily promote the merits of their services to SMEs through their maturing direct channels and referral networks.

However, cultural factors such as a tendency to borrow against more traditional forms of collateral (mainly property), wider property ownership and the residual scepticism of the industry which arose early in its development, are likely to remain deterrents which may hamper the growth of the Debtor Finance industry in Australia.

Retreat of incumbents from the Debtor Finance industry

In the aftermath of the global financial crisis, the Debtor Finance industry experienced a contraction in turnover, partly driven by the retreat of a number of the market incumbents, including Bankwest (2008), Australia and New Zealand Banking Group (2009), Commonwealth Bank of Australia (2011), Allianz (2013), General Electric (2016) and Suncorp (2016)³⁴.

For most of these institutions, Debtor Finance was a peripheral business, which contributed a relatively small amount to the overall balance sheet. This translated to a lack of familiarity with risk assessment procedures, monitoring credit standards and assessing new client originations. Coupled with the high regulatory capital impact as a result of the Basel III requirements for riskier products such as Debtor Finance, the investment in Debtor Finance could not be justified. Moreover, given the upward trend in property prices in Australia, banks were keen to deploy their assets in the lower risk property sector.

The exit of a number of the major banks drove a reduction in total turnover and created the space for specialised Debtor Financiers, such as Scottish Pacific, to gain a greater market share.

Banks on the other hand, have maintained exposure to the industry through the provision of senior facilities to specialist Debtor Financiers, which requires lower regulatory capital than required for lending to SMEs in the form of Debtor Finance.

³¹ Australian Taxation Office – Changes to company tax rates

³² Factor Chain International – Annual Review 2015

³³ NSW Business Chamber – Small Business Access to Finance

³⁴ Scottish Pacific company publications

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Competitive landscape

Participants in the Debtor Finance industry fall into a number of categories, including:

- *Major banks.* Local banks were established players in the Debtor Finance industry prior to the global financial crisis. However, following the exit of Commonwealth Bank of Australia and Australia and New Zealand Banking Group, participation from the four major banks is limited to National Australia Bank and Westpac Banking Group. Products offered by the major banks are predominantly weighted towards Discounting, since these are typically less labour intensive
- *Regional banks.* In addition to the major banks, regional banks, such as Bendigo and Adelaide Bank are also active in the market. While regional banks have smaller scale in terms of facility sizes and funds deployed, they tend to offer both Discounting and Factoring products, which positions them as more credible competitors to the specialised Debtor Financiers in terms of product options
- *International banks.* International banks have not historically been major participants in the industry. However, HSBC offers a comprehensive product suite including both Discounting and Factoring products
- *Specialised Debtor Financiers.* Specialised Debtor Financiers deploy funding obtained from deposit-taking institutions to provide a comprehensive product suite consisting of both Discounting and Factoring solutions. However, a number of specialist Debtor Financiers lack the scale and funding possessed by major banks or regional banks. Market participants in this category, in addition to Scottish Pacific, include CML Group, AR Cash Flow, Moneytech, Key Factors and Asset Secure
- *FinTechs.* FinTech participants deploy technologically intensive solutions in an effort to disrupt more traditional incumbents in the industry. FinTechs represent a diverse group of companies using a number of business models such as Peer-to-Peer lending, crowd funding and online financing³⁵. So far, participants in this category have been limited with potential entrants being hindered by barriers to entry such as the diversification requirements of funding facilities and the strength of the established distribution networks of the traditional participants, and
- *Non-bank financial institutions.* A number of non-bank financial institutions have been involved in the segment, although the largest of these, GE Finance and Suncorp, both exited the industry by selling their client books to Scottish Pacific.

There is limited data to assess market share since industry participants currently do not disclose their turnover figures to the industry body, the Debtor and Invoice Finance Association. However, Scottish Pacific believes that its share in the market is c. 33%³⁶.

Industry outlook

The key themes shaping the outlook of the Debtor Finance industry are summarised below:

- *Product innovation and evolution of Debtor Finance solutions.* In order to present themselves as alternatives to more traditional bank financiers, specialised Debtor Financiers seek to provide a more

³⁵ Cambridge Centre for Alternative Finance, Australian Centre for Financial Studies, KPMG – Cultivating growth

³⁶ Scottish Pacific company publications and management disclosures

comprehensive working capital solution. Accordingly, Debtor Financiers are exploring new products in areas such as equipment finance, asset finance and supply chain solutions, which have traditionally been product specialisations of banks

- *Industry consolidation.* Acquisitions have been a recurrent theme in the industry as the benefits of scale, such as lower cost-to-income ratios, diversification of receivables, lower funding costs and higher pricing power, are sought by participants. Scottish Pacific is an amalgamation of many entities (Scottish Finance, Benchmark Debtor Finance, Bibby Finance, Suncorp Debtor Finance and GE Debtor Finance) and CML, Scottish Pacific's largest non-bank competitor, is also pursuing an inorganic growth strategy, with recent acquisitions including the Debtor Finance business of the Thorn Group, 180 Group (an invoice financing business) and Cashflow Advantage.

Over the medium-term, acquisitions are likely to remain an important strategy for growth among market participants

- *Technology adoption and operational cost efficiencies.* Debtor Finance has traditionally been a relatively labour intensive industry. However, technology developments offer the opportunity for efficiencies to be realised in operational areas, such as collections, credit analysis and risk management. The cost efficiencies to be gained from technology adoption are potentially substantial, given that the leaders in the industry operate at a cost to income ratio of around 50%, compared to banks which typically operate at cost-to-income ratios closer to 30%
- *Re-entry of traditional financiers.* Notwithstanding the reduction in activity of the major banks noted above, the return of the major banks to the Debtor Finance industry remains a potential risk to specialist Debtor Financiers, since the scale advantages and funding costs of the major banks cannot be matched by the smaller industry specialists, such as Scottish Pacific
- *Competitive threat from FinTechs and adjacent market participants.* FinTechs and adjacent market participants are likely to further emerge as a competitive threat in the Debtor Finance industry. For example, Prospa has sought to make forays into the Debtor Finance industry through products such as Invoice Financing. Specialist Debtor Financiers have sought to mitigate this threat by expanding their product suite and providing broader working capital solutions to their clients.

The efforts of the new participants in the Debtor Finance market have been slowed by traditional barriers to entry, such as limited funding sources, lack of know-how on the credit approval process and lack of mature distribution networks. These are likely to remain substantial hurdles for the new participants, at least in the near term

- *Resilience of Debtor Finance through business cycles.* While Debtor Finance is exposed to the ebb and flow of the economic cycle, the industry has been relatively defensive in the past. This is especially true for large scale providers, such as Scottish Pacific, which have relatively low concentration to particular industries and debtors, and maintain robust credit monitoring standards.

However, given the contraction in the industry in the aftermath of the global financial crisis and the positive correlation between the performance of SMEs and economic growth, a slowdown in activity in the Debtor Finance industry is likely in the event of an economic downturn, and

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- *Regulatory change.* Debtor Finance remains a relatively lightly regulated industry, since the target client base of SMEs are perceived to require less regulatory protection relative to retail consumers. The industry is currently covered by the Corporations Act and Commercial Agents and Private Inquiry Agents Act of 2004, which are broad governance frameworks, rather than specifically designed legislation for the Debtor Finance industry³⁷.

With the regulatory scrutiny of the retail finance industry likely to increase in the aftermath of the Hayne Royal Commission, there is the possibility that the regulatory environment may also become more stringent for participants in the SME market. If regulation does increase, it is likely to impede the growth of the industry by restricting riskier product categories, capping pricing flexibility and increasing operational costs.

³⁷ Scottish Pacific company disclosures



Appendix 4 – Overview of valuation methodologies

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a

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business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 5 – Market evidence

Sharemarket evidence

The following table sets out the implied P/E and P/B multiples for selected listed companies operating in the Australian Debtor Finance and Specialised Finance industries.

Table 24: Share market evidence – Australian Debtor Finance and Specialised Finance

| Company | Market capitalisation ¹ (\$ million) | P/E multiple ² | | P/B multiple ³ | | |
|--|--|---------------------------|-----------------------|---------------------------|-----------------------|--|
| | | Historical ⁴ | Forecast ⁵ | Historical ⁶ | Forecast ⁵ | |
| Debtor Finance | | | | | | |
| CML Group Limited | A\$ 117 | 15.2 | 12.2 | 2.9 | 2.5 | |
| Equipment Finance | | | | | | |
| Aksesstoday Limited ⁷ | A\$ 106 | 15.1 | 8.4 | 1.5 | 1.5 | |
| Thorn Group Limited ⁸ | A\$ 98 | 6.9 | 11.6 | 0.5 | n/a | |
| Fleet Management & Salary Packaging | | | | | | |
| McMillan Shakespeare Limited | A\$ 1,387 | 14.8 | 14.0 | 4.0 | 3.5 | |
| SGFleet Group Limited | A\$ 999 | 13.5 | 12.9 | 4.0 | 3.6 | |
| Eclipx Group Limited ⁹ | A\$ 765 | 10.1 | 9.4 | 0.9 | 0.7 | |

Source: S&P Capital IQ; Mergermarket; Company announcements; Company financial statements; KPMG Corporate Finance analysis

Notes:

1. Market capitalisation is calculated using closing prices on 21 September 2018
2. P/E multiple represents market capitalisation divided by NPATA. NPATA represents net profit after tax excluding abnormal and extraordinary items, amortisation and impairment charges pertaining to acquired intangibles on a tax-effected basis
3. P/B multiple represents market capitalisation divided by book value of common equity
4. Historical P/E multiple is reflective of the latest reported financial year. If the latest reported financial year was prior to 30 June 2018, a last twelve months (LTM) figure using company annual reports has been used as a proxy
5. Forecast P/E and P/B multiples are based on consensus broker forecasts
6. Historical P/B multiples are reflective of the company's latest reported financial position, including half year reports released to the market
7. On 12 September 2018, Aksesstoday's shares were placed in a trading halt and subsequently under voluntary suspension due to a business strategy review. The suspension was extended on 24 September 2018 due to pending management changes in addition to the strategic review
8. The earnings basis used to calculate Thorn Group Limited's forecast P/E multiple reflects the midpoint of the FY19 earnings guidance range of \$7.0 million to \$10.0 million released by the company
9. Eclipx Group Limited's forecast P/B multiple is based on the average FY19 multiples calculated by 5 independent brokers

The multiples are based on share market prices as at 21 September 2018 and do not include a control premium. A brief description of each company is outlined below.

CML Group Limited

CML Group Limited (CML), formerly known as Careers Multilist Limited, provides cash flow and integrated business solutions to SME businesses in Australia. Its primary services of 'factoring' or 'receivables finance' operate under the name Cashflow Finance. Other services include trade finance to assist clients finance purchases, as well as equipment finance to assist SME's with capital expenditure on items required to operate their business. Its loans range from \$20,000 to \$500,000 and focus primarily on funding second-hand transport and yellow goods. The company is considered to be second in the market to Scottish Pacific in the non-bank Debtor Finance industry and targets the smaller end of the SME market.

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Since April 2015, CML has successfully integrated four Debtor Finance businesses for a total consideration of approximately \$100 million. These acquisitions include those involving Cashflow Finance Australia Pty Limited, CashFlow Advantage Pty Limited, 180 Group Holdings Pty Limited and Thorn's TDF division.

Aksesstoday Limited

Aksesstoday Limited (Aksesstoday) provides equipment funding solutions for over 11,000 SME customers primarily in the hospitality and transport sectors within Australia. It also offers leasing for yellow goods, transport and logistics equipment, franchise equipment, and other operating equipment.

Aksesstoday was incorporated in 2014 and debuted on the Australian Stock Exchange in December 2016. In February 2017, Aksesstoday launched a new product that provides short term business loans to qualifying customers. The offering is complementary to the business and contributed to approximately 13% of FY18 revenue, with the principal balance on the loan book reaching \$16.3 million. In June 2018, the company commenced its expansion in the Canadian market through a partnership with a well-established retail merchant in the local hospitality sector and surpassed \$1.7 million in originations.

On 28 August 2018, Aksesstoday's share price experienced a sharp decline following disclosure of changes to its arrears reporting as required by securitisation providers, which triggered a breach of its debt covenants. On 12 September 2018, Aksesstoday's shares were placed in a trading halt and subsequently under voluntary suspension due to a business strategy review. The suspension was extended on 24 September 2018 due to pending management changes in addition to the strategic review.

Thorn Group Limited

Thorn Group Limited (Thorn), together with its subsidiaries, provides a range of financial solutions to consumers and businesses in Australia. It is primarily involved in the leasing of household products to consumers and provision of leasing and other financial services to SME's under the Radio Rentals name, which operates over 70 outlets nationally. The company also engages in the provision of loans, commercial finance, and receivables management services.

In February 2018, the sale of Thorn's TDF division to CML was completed at a sale price above book value, but at a small deficit to the division's net asset value once transaction costs and provisioning are taken into account. The sale was expected to immediately release the capital in the loan book, with the proceeds being used to reduce debt. In FY18, the company reported an after tax loss of \$3.6 million following a goodwill impairment of \$20.7 million, which has been excluded in the calculation of its historical P/E multiple.

Thorn has encountered various legal issues over recent years, including:

- on 16 May 2018, the Federal Court of Australia ordered a \$2 million civil penalty against Thorn for contravening its responsible lending obligations as the company failed to make the necessary inquiries and take steps to verify the financial situation of its customers, and failed to conduct a proper assessment of the suitability of the leases it provided, and
- on 29 March 2017, Maurice Blackburn launched a class action in the Federal Court of Australia seeking compensation for over 200,000 consumers who entered into 'Rent Try \$1 Buy' leases with Radio Rentals between 28 March 2011 and 29 March 2017.

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McMillan Shakespeare Limited

McMillan Shakespeare Limited (MMS) provides salary packaging, vehicle leasing administration, fleet management, and retail financial services. MMS has 21 subsidiary companies with 15 incorporated in Australia, two in New Zealand and the remaining four in the United Kingdom, managing more than 290,000 employee benefit programs and over 70,000 vehicles. The company operates in three segments: Group Remuneration Services, Asset Management, and Retail Financial Services.

- Group Remuneration Services (accounting for 38% of FY18 revenue) offers administrative services related to salary packaging; and facilitates the settlement of motor vehicle novated leases for customers. It also provides ancillary services associated with motor vehicle novated lease products
- Asset Management (accounting for 45% of FY18 revenue) offers financing and ancillary management services associated with motor vehicles, commercial vehicles, and equipment, and
- Retail Financial Services (accounting for 17% of FY18 revenue) provides retail brokerage services, aggregation of finance originations, and extended warranty covers.

MMS has two asset finance and vendor finance subsidiaries, AngloScottish Asset Finance and Capex Finance, which are considered most comparable to Scottish Pacific.

SG Fleet Group Limited

SG Fleet Group Limited (SG Fleet) is an established participant in the fleet management and leasing, and salary packaging services industry. The company listed on the ASX in March 2014 and has a presence across Australia, NZ, and the UK, employing over 700 staff, and managing over 140,000 assets. SG Fleet is characterised by a limited free float of 32% as its former owner, Super Group Limited, maintains a tight control over the company with a controlling stake of approximately 57% of the business. This may have influenced the derived implied multiples.

On 19 August 2018, SG Fleet submitted a non-binding, indicative and conditional proposal to acquire 100% of the shares of Eclix, which was subsequently rejected. Further details of the proposal are discussed further below in transaction evidence.

Eclix Group Limited

Eclix Group Limited (Eclix) is a diversified financial services organisation that provides complete fleet management services, corporate and consumer asset backed finance, medium term vehicle rentals, online auctioneering and associated services to the Australian and NZ market. As at 31 March 2018, Eclix managed or financed in excess of 112,000 vehicles across Australia and NZ with \$2.3 billion in assets under management. It operates in Australia and NZ under nine primary brand names, including FleetPartners, FleetPlus, CarLoans.com.au, Georgie, areyouselling.com.au, FleetChoice, AutoSelect, Right2Drive and GraysOnline.

On 20 August 2018, Eclix rejected SG Fleet's non-binding, indicative and conditional proposal to acquire 100% of its shares of Eclix on the basis that the terms of the offer were not in the best interests of shareholders. The company has announced it has commenced a strategic review to evaluate the strategic merits of alternative customer orientated initiatives and various corporate actions available. Further details of the proposal are discussed further below in transaction evidence.

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Transaction evidence

The following table sets out a summary of recent transactions involving businesses in the Australian Debtor Finance and Specialised Finance industries.

Table 25: Transaction evidence – Australian Debtor Finance and Specialised Finance

| | | Australian Debtor Finance and Specialised Finance | | | | | |
|-------------------------------|---|---|---------------------------------------|---------------------------|----------|---------------------------|----------|
| Date | Target | Acquired stake (%) | Consideration (millions) ¹ | P/E Multiple ² | | P/B Multiple ³ | |
| | | | | Historical | Forecast | Historical | Forecast |
| Scottish Pacific transactions | | | | | | | |
| Jul-16 | Initial Public Offering ⁴ | 100% | A\$ 445 | 20.0 | 14.0 | 3.1 | 2.6 |
| Dec-15 | Bibby Financial Services (Australia) ⁵ | 100% | A\$ 120 | 17.4 | 11.2 | n/a | n/a |
| Other transactions | | | | | | | |
| Aug-18 | Eclix Group Limited ⁶ | 100% | A\$ 818 | 10.8 | 10.4 | 0.9 | n/a |
| Jul-17 | Pepper Group Limited ⁷ | 100% | A\$ 696 | 11.4 | 10.3 | 1.5 | n/a |
| Jan-17 | UDC Finance ⁶ | 100% | NZ\$ 660 | 11.3 | n/a | 1.6 | n/a |
| Jul-16 | RESIMAC | 100% | A\$ 134 | 10.3 | n/a | 1.6 | n/a |
| Oct-15 | Esanda (dealer finance portfolio) ⁸ | 100% | A\$ 8,230 | n/a | 11.4 | 1.5 | n/a |
| Oct-15 | Fisher & Paykel Finance | 100% | NZ\$ 294 | 9.9 | n/a | 2.9 | n/a |
| Jan-14 | Bluestone Group Pty Limited | Majority | A\$ 120 | 9.0 | n/a | n/a | n/a |

Source: Company financial statements; company announcements; press releases; broker reports; S&P Capital IQ; Mergermarket; KPMG Corporate Finance analysis

Notes:

1. Consideration represents the implied 100% equity value of the company displayed in millions as per the local currency relevant to the transaction
2. P/E multiple represents the consideration paid divided by NPAT
3. P/B multiple represents the consideration paid divided by the book value of common equity
4. IPO transactions exclude a premium for control. P/E multiples are based on pro-forma NPATA as outlined in the prospectus, noting that pro-forma FY16 NPATA (which forms the basis for the historical P/E multiple) includes a pro-forma full year results contribution from Bibby, whilst the results from the acquisition of GE's and Suncorp's Debtor Finance portfolios are only reflected from the date of their respective completion, i.e. two months of GE's Debtor Finance portfolio results and one month of Suncorp's Debtor Finance portfolio results. The full run rate of synergies expected from these acquisitions, in particular from the Bibby acquisition, is also not reflected in the historical P/E multiple
5. The forecast P/E multiple for Bibby is based on \$5.1m of expected annual pre-tax cost synergies as outlined in the prospectus
6. The proposed acquisitions of Eclix Group Limited and UDC Finance are indicative offers that did not proceed to completion
7. Pepper's forecast P/E multiple based on guidance for underlying NPAT for the 12 months ending 31 December 2017
8. Based on a book value of net lending assets of \$7.8 billion, a book value of equity of \$0.8 billion, and the announcement by Macquarie that the acquisition is expected to be 10 cents per share earnings accretive in its first full year

Description of comparable transactions

A brief description of the comparable transactions is provided below.

Scottish Pacific transactions

Initial Public Offering of Scottish Pacific Group Limited

On 13 July 2016, Scottish Pacific Shares commenced trading on the ASX. The offer price implied a forecast P/E multiple of 14.0 times and a forecast P/B multiple of 2.6 times. Multiples implied by an IPO do not include a control premium.



Acquisition of Bibby Financial Services (Australia) by Scottish Pacific Group Limited

On 31 December 2015, Scottish Pacific acquired Bibby Financial Services Australia Pty Ltd (Bibby) for approximately \$120 million. Previously the third largest independent debtor finance provider in Australia by turnover, Bibby was the Australian and New Zealand operations of UK-based Bibby Financial Services Limited. The acquisition was underpinned by significant pre-tax annual cost synergies of \$5.1 million forecast in FY17, primarily related to the elimination of duplicative shared services costs, with \$1.4 million cost synergies fully achieved in FY16. The consolidation of Bibby allowed Scottish Pacific to expand its distribution network through its complementary product suite, further solidifying its market position as a leading independent Debtor Finance provider in Australia.

Other transactions

Proposed acquisition of Eclix Group Limited by SG Fleet Group Limited

On 19 August 2018, SG Fleet submitted a non-binding, indicative and conditional proposal to acquire 100% of the shares of Eclix by way of a scheme of arrangement. The indicative offer of \$2.00 cash plus 0.15 SG Fleet shares per Eclix share values Eclix at approximately \$818 million, or approximately \$2.52 per share. The offer represented a premium of 17.8% to Eclix's last closing price of \$2.14 on 17 August 2018, and implied a historical P/E multiple of 10.8 times.

On 20 August 2018, Eclix rejected the proposal from SG Fleet as the terms were considered inadequate and not in the best interests of shareholders, based on the belief that the current share price does not reflect the long term value of the business (including its underlying assets, growth prospects, and operating leverage) nor the synergies available in any industry combination.

Acquisition of Pepper Group Limited by KKR Credit Advisors (US) LLC

On 5 July 2017, KKR Credit Advisors (US) LLC (KKR Credit) announced a non-binding, conditional and incomplete proposal to acquire Pepper Group Limited (Pepper). On 25 September 2017, Pepper announced that it had received an improved proposal for a total consideration equal to \$3.70 per share, comprising a cash consideration of \$3.60 per share and a fully franked special dividend of \$0.10 per share. Based on NPAT of \$61.0 million for FY16, the deal implies a historical P/E multiple of 11.4 times.

Pepper was a listed Australia-based company engaged in providing non-banking lending, mortgage lending, third-party loan services, advisory and asset management services. Pepper had over 600,000 customers worldwide with \$53.3 billion in assets under management as at 30 June 2017, comprising \$8.0 billion in lending assets and a servicing portfolio of \$45.3 billion. KKR Credit is an affiliate of KKR, a US-based private equity firm that manages multiple alternative asset classes with over US\$191.3 billion of assets under management as at 30 June 2018. The transaction allows Pepper to tap into KKR's sources of capital to help accelerate its long term organic growth initiatives around the world.

Proposed acquisition of UDC Finance Limited by HNA Group Co., Ltd

On 11 January 2017, HNA Group Co., Ltd. (HNA) entered into an agreement to acquire UDC Finance Limited (UDC), an asset finance business wholly owned by Australia and New Zealand Banking Group Limited (ANZ Limited) for NZ\$660 million. The transaction also includes the Esanda name and trademarks in Australia and New Zealand.

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UDC is New Zealand's largest non-bank lender that provides asset-based finance to businesses for purchasing plant, vehicles and equipment, with access to a NZ\$1 billion committed facility from ANZ Limited. With a reported P/B multiple of approximately 1.6 times, the deal enables ANZ Limited to simplify its business and enhance capital efficiency and is also in line with HNA's strategy to expand its tourism, logistics and financial services businesses in New Zealand. HNA is an acquisitive Chinese conglomerate considered as one of the world's largest asset finance and leasing companies.

On 21 December 2017, New Zealand's Overseas Investment Office declined HNA Group's application to acquire UDC due to insufficient information provided concerning ownership and control interests. On 12 January 2018, ANZ Limited announced the termination of the agreement to sell UDC to HNA.

Merger between RESIMAC Limited and Homeloans Limited

On 20 July 2016, RESIMAC Limited (RESIMAC) entered into a scheme implementation agreement to acquire Homeloans Limited (Homeloans) in a reverse merger transaction. The all-scrip transaction created a merged group of two highly complementary businesses with a combined loan portfolio in excess of \$12 billion and new annual originations exceeding \$3 billion. Homeloans was a listed Australian company engaged in mortgage origination and management of home loan mortgages and RESIMAC provided non-bank lending services. The transaction was underpinned by the expected revenue and operational synergies identified.

On 13 October 2016, the transaction was successfully completed, with RESIMAC shareholders holding 72.5% of the merged group and existing Homeloans shareholders held the remaining 27.5%.

Acquisition of Esanda (dealer finance portfolio) by Macquarie Leasing Pty Limited

On 8 October 2015, Macquarie Leasing Pty Limited (Macquarie Leasing) entered into an agreement to acquire the Esanda dealer finance portfolio from ANZ Limited for approximately \$8.2 billion. The portfolio comprises retail and wholesale dealer finance on motor vehicles across Australia. The sale of the Esanda dealer finance portfolio was expected to allow ANZ Limited to focus on its core businesses and further strengthen its capital position. The acquired portfolio was also expected to complement Macquarie Leasing which has significant domain expertise and has successfully integrated similar acquisitions, allowing further penetration in the Australian motor vehicle financing market.

On 1 May 2016, the deal was completed and the Esanda dealer finance business became part of Macquarie Leasing, the automotive and equipment financing division of Macquarie Group Limited's Corporate and Asset Finance Group. Other bidders that participated in the auction included Pepper Group, York Capital Management and HNA Group. In its first full year of acquisition, the deal was expected to be accretive by adding 10 cents to Macquarie's earnings per share, implying a forecast P/E multiple of 11.4 times.

Acquisition of Fisher & Paykel Finance Limited by FlexiGroup Limited

On 27 October 2015, FlexiGroup Limited (FlexiGroup) entered into an agreement to acquire Fisher & Paykel Finance Limited (F&P Finance) for an upfront cash consideration of NZ\$250 million, deferred consideration of NZ\$10 million payable in two years and a perpetual note held by vendor of NZ\$55 million.

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F&P Finance was a leading provider of non-bank consumer credit in New Zealand with receivables of NZ\$662 million and over 430,000 active cardholders. It operated a high quality portfolio of respected brands including QW Card and Farmers Finance Card, which together had a combined 21% share of the New Zealand credit card market. The transaction was expected to significantly enhance the operational scale of FlexiGroup, facilitating access to new industry channels both in Australia and New Zealand, as well as opportunities for customer growth. The deal was expected to provide the combined entity with over \$2 billion in receivables and implied a historical P/E multiple of 9.9 times, excluding synergies. On a pro-forma basis, including expected synergies, the acquisition was expected to be high single digit cash earnings per share accretive.

Acquisition of Bluestone Group Pty Limited by Lloyds Development Capital

On 22 January 2014, Lloyds Development Capital (LDC) agreed to acquire a majority stake in Bluestone Group Pty Limited (Bluestone), a multinational business that provided asset management services and capital management services across the UK, Ireland, and Australasia. Its asset management division, Bluestone Portfolio Management (BPM), was responsible for the management of loan portfolios. Its capital management division, Bluestone Capital Management (BCM), originated and acquired portfolios of loans in partnership with capital partners, typically banks or alternative investment funds. The investment by LDC, a leading mid-market UK private equity investor owned by Lloyd Bank, helped to accelerate the growth of Bluestone to become a high-profile quality player in a number of key sectors. Based on Bluestone's reported profit of \$13.4 million in FY13, the deal implied a historical P/E multiple of 9.0 times. On 29 March 2018, LDC exited its investment in Bluestone, however there is limited publicly available information regarding the transaction.

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Appendix 6 – Discount rate

Where cash flow forecasts consist of free cash flows to all providers of funding, the WACC is commonly employed as the basis for determining an appropriate discount rate. For the purposes of our DCF analysis for Scottish Pacific, we have adopted a discount rate in the form of a WACC in the range of 10.0% to 11.0%. We consider this range appropriately reflects the expected return of a hypothetical knowledgeable, willing, but not anxious buyer, based upon the perceived risks associated with Scottish Pacific.

The selection of an appropriate discount rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement rather than a precise calculated outcome. Whilst there is commonly adopted theory that provides a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, the calculated discount rate should be treated as an estimate rather than objective truth. Furthermore, discount rate assessments need to consider both current market conditions and future expectations, and to the extent that there are any changes in conditions and expectations over time, an adjustment to the discount rate at a future point in time may be warranted.

In selecting appropriate discount rates to apply to the cash flows of Scottish Pacific, we have selected a nominal WACC to align with the forecast nominal ungeared cash flows being used to derive the resultant DCF values. A WACC represents an estimate of the weighted average required return from both debt holders and equity investors. The WACC is derived using the following formula:

$$\text{WACC} = (\text{Wd} * \text{Kd} * (1 - \text{t})) + (\text{We} * \text{Ke})$$

Table 26: WACC parameters

| Parameter | Description |
|-----------|---|
| Kd | Pre-tax Cost of debt |
| Wd | Percentage of debt in capital structure |
| Ke | Cost of equity |
| We | Percentage of equity in capital structure |
| T | Company tax rate |

Source: KPMG Corporate Finance analysis

The WACC calculation is a theoretical model based on assumptions that may not hold in practice, including:

- a constant optimal capital structure, and
- interest payments on debt being tax deductible.

Cost of equity

The cost of equity can be derived using a modified Capital Asset Pricing Model as follows:

$$\text{Ke} = \text{Rf} + \beta * (\text{Rm} - \text{Rf}) + \alpha$$

Table 27: Cost of equity parameters

| Parameter | Description |
|-----------|---|
| Rf | Risk free rate, representing the return on a risk-free asset |
| Rm | Market rate of return, representing the expected average return on a market portfolio |
| (Rm - Rf) | Market risk premium, representing the excess return that a market portfolio is expected to generate over the risk free rate |
| β | Beta factor, being a measure of the systematic risk of a particular asset relative to the risk of a market portfolio |
| α | Specific risk factor, which may be included to compensate for risks which are not adequately captured in either the other discount rate parameters or the cash flows being discounted |

Source: KPMG Corporate Finance analysis

WACC – Scottish Pacific

KPMG Corporate Finance's rationale for the selection of each of the variables in developing a WACC for Scottish Pacific is discussed below.

Risk free rate

The risk free rate of return is the return on a risk free security, typically for a long-term period. In practice, long dated Government bonds are accepted as a benchmark for a risk free security. In Australia, the 10-year Commonwealth Government bond yield is commonly referenced.

However, Government bond yields continue to trade at relatively low yields compared to long-term averages. As market evidence indicates that bond yields and the market risk premium are strongly inversely correlated, it is important that any assessment of the risk free rate should be made with respect to the position adopted in deriving the market risk premium. As the market risk premium is based on a long term view of the market, it is also important to do the same with the risk free rate to ensure the combination of the risk free rate and market risk premium represents an appropriate return in the current investment environment.

Consequently, the risk free rate has been selected by reference to both the current spot yield and long term forecast yields on 10-year Australian Government bonds. We have adopted 3.9% as an appropriate risk free rate, which represents a blend of the spot yield of 2.67% as at 30 September 2018 and a forecast long-term bond yield of 4.17% (based on an average of long term bond yields sourced from various economic forecast providers including Oxford Economics, BIS Shrapnel, Deloitte Access Economics and KPMG Economics).

Market Risk Premium

The MRP represents the additional return that investors expect for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index) over risk free assets (such as Government bonds). In this context, the required MRP needs to be distinguished from the historical MRP and the expected MRP. In this regard, asset pricing theory holds that:

- the required MRP forms part of the CAPM

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- the historical MRP is the same for all investors and reflects the historical differential return of the stock market over Government bonds, and
- the expected MRP reflects the expected differential return of the stock market over Government bonds. The CAPM assumes the required MRP equals the expected MRP.

As it is difficult to observe the expected/required MRP, it is common practice to base the estimate of the MRP upon historical data. In doing so, it is noted that long term averages may not, in our opinion, reflect market conditions and investor sentiment at any specific valuation date as perceptions that equities are more or less risky than at other times may prevail. In this regard, we note that the expected MRP is a function of expected earnings, the expected growth in those earnings and the risk free rate of return at any given point in time.

Therefore, consistent with our approach to the risk free rate, we applied a long term view in setting the market risk premium. A market risk premium of 6.0% is regarded as appropriate by KPMG Corporate Finance for the risk free rate selected and the current long-term investment climate in Australia.

Beta

In selecting an appropriate levered beta to apply to Scottish Pacific, KPMG Corporate Finance has considered Scottish Pacific's beta, as well as betas for selected listed Australian Debtor Finance and Specialised Finance providers, as set out below.

Table 28: Betas and gearing for selected comparable companies

| Company | Market capitalisation (\$ million) | Levered beta | | Levered beta | |
|-------------------------------------|------------------------------------|---------------|--------------------------|----------------|--------------------------|
| | | 2-year weekly | Debt to value 2-year avg | 5-year monthly | Debt to value 5-year avg |
| Debtor Finance | | | | | |
| Scottish Pacific Group Limited | A\$ 521 | 0.89 | 8% | n/a | n/a |
| CML Group Limited | A\$ 117 | 0.99 | 45% | n/a | 45% |
| Equipment Finance | | | | | |
| Aksesstoday Limited | A\$ 106 | n/a | n/a | n/a | n/a |
| Thorn Group Limited | A\$ 98 | n/a | 37% | n/a | 24% |
| Fleet Management & Salary Packaging | | | | | |
| McMillan Shakespeare Limited | A\$ 1,387 | 1.00 | 5% | 1.15 | 10% |
| SG Fleet Group Limited | A\$ 999 | 0.89 | 7% | n/a | n/a |
| Eclinx Group Limited | A\$ 765 | 1.08 | 36% | n/a | n/a |

Source: S&P Capital IQ; KPMG Corporate Finance analysis

Notes:

1. Data as at 21 September 2018
2. n/a represents not available or not statistically significant

In assessing an appropriate levered beta for Scottish Pacific, we have had regard to the following:

- we have focussed our comparables analysis on levered (or equity) betas, which reflect the financial leverage of the individual companies. Whilst we would typically seek to reflect a more appropriate or comparable capital structure by relevering asset betas, this approach is not considered appropriate for financial services businesses given net interest income is integral to the underlying earnings of these businesses and it is difficult to distinguish debt held for financial leverage purposes from debt utilised for working capital purposes based on publicly available information



- levered betas that have a low statistical significance or for which there are insufficient data points have been excluded. In this regard we note the following:
 - the majority of the selected peers have only listed on the ASX within the last five years (with the exception of CML, Thorn and MMS), which has resulted in the absence of various beta data points over the considered two and five year observation periods
 - the selected peers are largely thinly traded stocks, which may affect the relevance of the observed beta data points
- as a directly comparable peer, CML provides a relevant reference point with an observed levered beta of 0.99 over a two year period. However, CML's beta is diluted by its employment solutions segment which provides labour sourcing and project management services to which we would assign a lower risk profile and in turn a lower beta
- levered betas for companies in the fleet management and salary packaging industry range between 0.89 to 1.08 over a two year period. Companies in this sector are characterised by a different funding mechanism (typically adopting both on and off-balance sheet funding sources) and are also typically exposed to residual value risk, limiting the comparability of their betas. MMS, SG Fleet and Eclix are also larger and more geographically diversified and as such we would expect Scottish Pacific to have a higher beta
- the observed levered beta for Scottish Pacific is 0.89 over a two year period. However, due to the limited liquidity of trading in Scottish Pacific Shares (refer to Section 7.6) combined with exacerbated volatility caused by the occasional activity of significant institutional investors over the two year observation period, we consider the levered beta observed for Scottish Pacific is not a reliable estimate of the risk profile of its business operations
- Scottish Pacific's client book is biased to capital light, higher growth SMEs from industries such as wholesale trade, labour hire, manufacturing, etc. which by their nature are strongly correlated with the overall economic environment. Based on historic analysis, management identified that this client bias is driving "on book" Debtor Finance client growth of roughly three times GDP. Intuitively, we would expect a business of such nature to have a beta at or slightly above 1, and
- the introduction of new working capital products into the market, such as the recently introduced Asset Finance, Cashline and Corporate Credit Line products, presents new opportunities but also carries additional risks for Scottish Pacific. From experience, the fine tuning of credit processes and controls, and the consideration of fraud factors for new products is changeable during the early stages of the product. A lack of historic track record in managing the credit quality of its new product portfolio may also temporarily limit Scottish Pacific's ability to leverage its existing funding vehicles in order to write new business on market competitive terms. As such, until the business model and risk management processes associated with the new products are fine-tuned and proven, there is higher uncertainty and volatility inherent in the Specialised Finance business, which we have considered in our assessment of an appropriate levered beta for the Scottish Pacific business as a whole.

Taking into account the factors detailed above, KPMG Corporate Finance has selected a levered (or equity) beta range of between 1.0 and 1.2 for Scottish Pacific.

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Gearing

In assessing an appropriate gearing ratio for Scottish Pacific, we have had regard to the following:

- the current net debt to value ratio of Scottish Pacific of approximately 12.8%³⁸ based on the equity value implied by the Scheme Consideration. We note that Scottish Pacific's senior and mezzanine warehouse funding vehicles are utilised as working capital facilities and only its corporate debt facility applies financial leverage to Scottish Pacific's residual interest in the Funding Vehicle
- the current gearing level of Scottish Pacific is above historic trend, primarily driven by new loan originations in its Specialised Finance business which currently cannot be funded through its existing facilities. However, Scottish Pacific is in negotiations with its warehouse lenders to allow the Funding Vehicle to fund its new Specialised Finance products, upon which we would expect Scottish Pacific's gearing level to revert to historical trend of around 10%
- the debt-to-value ratios observed for CML have historically been relatively stable at around 45% over a two and five year period. However, CML's historical gearing levels are less relevant as it introduced warehouse funding vehicles into its capital structure in the second half of FY18, which replaced a significant portion of its existing corporate debt facilities at the time
- generally, earnings exhibiting low levels of expected volatility are assumed to support higher levels of debt. In this regard, we note that Scottish Pacific's business model is characterised by a relatively high level of Client attrition (albeit in line with industry levels) and, as such, its earnings are exposed to potentially higher volatility than businesses with earning profiles that are secured by long term customer contracts or relationships, and
- companies characterised by higher levels of investment in tangible assets can generally support a higher gearing profile. In this regard, we note that Scottish Pacific operates a capital light business model and is characterised by negligible levels of fixed assets. As at 30 June 2018, less than approximately 0.1% of Scottish Pacific's total assets were attributable to fixed assets.

Based on the above, we consider an optimal gearing ratio for Scottish Pacific to be in the order of 10%.

Tax rate

We have adopted a corporate tax rate of 30% based on the Australian statutory corporate tax rate.

Size premium

As small companies tend to be more exposed to risk than large companies, an adjustment needs to be incorporated into the discount rate to reflect the inherent risk of smaller companies. Based on Scottish Pacific's market capitalisation of \$520.6 million at 19 September 2018 (prior to the trading halt imposed in relation to the Scheme),³⁹ we have adopted a small stock premium in the order of 0.5%, which is

³⁸ Based on adjusted net debt of \$90.0 million as at 31 August 2018 (refer to Section 8.5) and an equity value of \$612.4 million as implied by the Scheme Consideration and 139,191,601 of shares outstanding

³⁹ Based on a closing price of \$3.74 on 19 September 2018 and 139,191,601 shares outstanding

considered appropriate for a company with an equity value between \$200 million to \$650 million, with reference to international size premium studies which we have scaled to the Australian financial market.

Company specific risk premium

The specific risks of Scottish Pacific have been captured in the forecast cash flows and through our scenario analysis. Accordingly, to avoid double counting, no further allowance for company specific risk has been included in the determination of the discount rate.

Pre-tax cost of debt

We have adopted a long term, pre-tax cost of debt of 8.0% based on the following considerations:

- the size and market position of the Scottish Pacific business
- the nature of Scottish Pacific's corporate debt facility, which is primarily utilised to apply financial leverage to Scottish Pacific's residual interest in the funding vehicles
- the current all-in interest rate and tenor of Scottish Pacific's corporate debt facility
- the expectation of a normalisation of interest rate levels over the forecast period as reflected in our risk free rate assessment
- the level of financial gearing considered appropriate for Scottish Pacific's capital structure
- the level of funding provided by Scottish Pacific's senior and mezzanine warehouse funding vehicles, and
- the current cost of debt of CML's corporate debt facilities (being the closest publicly listed comparable) which are in the order of 7.95% as disclosed within its annual reports.

Franking credits

The inclusion of franking credits in the valuation of an entity is subject to considerable debate. Ultimately the value of franking credits is dependent on the extent that the franking credits can be utilised, which requires an understanding of the personal tax circumstances of the shareholders, including their ability to utilise the franking credits.

Further, given the prevailing tax laws in Australia prevent trading in franking credits, thereby eliminating any open market in franking credits from which the value of such credits can be observed, it is difficult to yield a reliable estimate of the value of franking credits, or to determine whether in fact, investors place any value on franking credits.

Consequently, we have not sought to recognise any value for franking credits in the valuation of Scottish Pacific either through the discount rate or cash flows.

WACC conclusion – Scottish Pacific

The selected parameters result in a calculated WACC for Scottish Pacific in the range of 9.9% to 11.0% as set out below.

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Table 29: Selected WACC parameters for Scottish Pacific

| | Parameter | Low | High |
|--|-----------|--------------|--------------|
| Cost of Equity | | | |
| Risk free rate | Rf | 3.9% | 3.9% |
| Equity market risk premium | EMRP | 6.0% | 6.0% |
| Geared beta | β | 1.00 | 1.20 |
| Size premium | α | 0.5% | 0.5% |
| Cost of equity (post-tax) | Ke | 10.4% | 11.6% |
| Cost of Debt | | | |
| All in rate (pre-tax) | | 8.0% | 8.0% |
| Tax rate | T | 30% | 30% |
| Cost of debt (post-tax) | Kd | 5.6% | 5.6% |
| Capital Structure | | | |
| Estimated market value of equity as % of value | We | 90% | 90% |
| Estimated market value of debt as % of value | Wd | 10% | 10% |
| Post-tax WACC | | | |
| Calculated range | | 9.9% | 11.0% |
| Midpoint | | 10.5% | |
| Selected range | | 10.0% | 11.0% |
| Midpoint | | 10.5% | |

Source: S&P Capital IQ; KPMG Corporate Finance analysis

Based on the above analysis, KPMG Corporate Finance has selected a WACC to apply to the post tax, nominal cash flows of Scottish Pacific in the range of 10.0% to 11.0%.



Appendix 7 – Glossary

| Abbreviation | Description |
|-------------------------------|--|
| \$ | Australian dollars |
| Affinity | Affinity Equity Partners Limited and its affiliates |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| Bibby | Bibby Financial Services Australia Pty Ltd |
| Bibby UK | Bibby Financial Services Limited, United Kingdom |
| Bidder | SME Capital Investments III Pty Ltd |
| Board | Board of Directors of Scottish Pacific |
| CAGR | Compound Annual Growth Rate |
| DCF | Discounted cash flow |
| EBIT | Earnings before Interest and Tax |
| EBITDA | Earnings before Interest, Tax, Depreciation and Amortisation |
| Effective Date | The date on which the Scheme becomes effective |
| Financial Model | A financial model prepared by the management of Scottish Pacific for FY19 to FY21 |
| FIRB | Foreign Investment Review Board |
| Forecast Period | A period of nine years from 1 July 2018 to 30 June 2027 |
| Funding Vehicle | Scottish Pacific's funding structure comprising Senior Facilities and Mezzanine Funding |
| FY | Financial year |
| HoldCo | SME Capital Holdings Pty Ltd (a special purpose company that was incorporated for the purpose of indirectly holding all the shares in the Bidder and issuing Holdco shares to Management Shareholders who validly elect the Scrip Option) |
| IER | Independent Expert's Report |
| k | Thousand |
| IPO | Initial Public Offering |
| LTI Plan | Long-term incentive plan |
| LVR | Loan-to-value ratio |
| KPMG Corporate Finance | KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) |
| m | Million |
| Management | Certain members of Scottish Pacific's senior management, comprising Peter Langham (CEO), David Rose (CFO), Craig Michie (Head of Specialised Finance), Wayne Smith (Head of Debtor Finance), Steven Davies (COO) and Ben Cutler (Chief Customer Officer) |
| Management Shareholders | A Shareholder, other than a Foreign Shareholder, who is an employee (or an affiliate of an employee) of a member of Scottish Pacific who earns an annual salary of \$200,000 or more |
| NPAT | Net profit after tax |
| NPATA | Net profit after tax excluding amortisation and impairment pertaining to acquired intangibles |
| NPV | Net present value |
| NSW | New South Wales |
| Prospectus | Scottish Pacific's Prospectus dated 22 June 2016 |
| Record Date | The date and time which determines the entitlement of Scottish Pacific Shareholders to Scheme Consideration for implementation of the Scheme |
| RG | ASIC's Regulatory Guide |
| Scottish Pacific Shareholders | Holders of Scottish Pacific Shares other than Management Shareholders |

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| Abbreviation | Description |
|-------------------------|--|
| SIA | Scheme Implementation Agreement |
| SMEs | Small and medium sized entities |
| the Scheme | The proposal that the Bidder will acquire 100% of Scottish Pacific Shares subject to certain shareholder and regulatory approvals and other conditions |
| Scheme Consideration | Scottish Pacific Shareholders will receive cash consideration of \$4.40 for each Scottish Pacific Share held on the Scheme Record Date |
| Scottish Pacific | Scottish Pacific Group Limited |
| Scottish Pacific Shares | The shares in Scottish Pacific listed on the ASX |
| Scrip Option | Management Shareholders may elect under the Scheme to receive for 50% of the Scottish Pacific Shares held (rounded down to the nearest whole Scottish Pacific Share), one share in HoldCo for each Scottish Pacific Share and for the remaining Scottish Pacific Shares held, \$4.40 in cash per share |
| UK | United Kingdom |
| VWAP | Volume Weighted Average Price |
| WACC | Weighted average cost of capital |



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PART TWO – FINANCIAL SERVICES GUIDE

Dated 24 October 2018

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Mr Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189 and Mr Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 (**Authorised Representative**).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Scottish Pacific Group Limited (Client) to provide general financial product advice in the form of a Report to be included in the Scheme Booklet (Document) prepared by the Client in relation to the scheme of arrangement involving an entity owned by certain funds, clients or accounts managed or advised by Affinity Equity Partners Limited and its affiliates (Transaction). You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

Annexure A – Independent Expert's Report

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report. You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$375,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report. Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership. From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses. Over the past two years professional fees of \$0.4 million and \$0.2 million have been received from the Client. None of those services have related to the Transaction or alternatives to the Transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint. Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1800 367 287

Facsimile: (03) 9613 6399 Email: info@fos.org.au

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance

A division of KPMG Financial Advisory Services (Australia) Pty Ltd

Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

PO Box H67
Australia Square
NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

Sean Collins
C/O KPMG
PO Box H67
Australia Square
NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

Annexure B – Scheme

Scheme of Arrangement

Dated

Scottish Pacific Group Limited (ACN 164 013 110) (“**Target**”)

Scheme Participants

Annexure B – Scheme

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Scheme of Arrangement

Details

Parties

| | | |
|----------------------------|---|--|
| Target | Name | Scottish Pacific Group Limited |
| | ACN | 164 013 110 |
| | Formed in | Victoria |
| | Address | Level 5, 20 Bond Street, Sydney, NSW 2000 |
| | Email | Patrick.Elliott@nextcapital.com.au LanghamP@scottishpacific.com |
| | Attention | Patrick Elliott and Peter Langham |
| Scheme Participants | Each person registered as a holder of fully paid ordinary shares in Target as at the Record Date. | |
| Governing law | New South Wales | |

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

Affiliate means in respect of a person (**Primary Person**), a person:

- (a) Controlled directly or indirectly by the Primary Person;
- (b) Controlling directly or indirectly the Primary Person; or
- (c) directly or indirectly under the common Control of the Primary Person and another person or persons.

APRA means the Australia Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the market operated by it, as the context requires.

AUSTRAC means the Australian Transaction Reports and Analysis Centre.

Bidder means SME Capital Investments III Pty Ltd (ACN 628 950 514).

Business Day means a business day as defined in the Listing Rules.

Cash Scheme Consideration means an amount equal to the aggregate amount of the cash component of the Scheme Consideration payable to Scheme Participants under clauses 6.3(a) and 6.3(b)(ii) of this Scheme.

CHESS means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd.

Control means, with respect to any person (other than an individual), the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise, and includes the following:

- (a) direct or indirect ownership of more than 50% of the voting rights of such person; or
- (b) the right to appoint the majority of the members of the board of directors of such person (or similar governing body) or to manage on a discretionary basis the assets of such person,

and, for the avoidance of doubt, and, solely for the purposes of the definition of Affiliate:

- (c) a general partner is deemed to Control a limited partnership;

- (d) a fund, client or account advised or managed, directly or indirectly, by a person will also be deemed to be Controlled by such person; and
- (e) a fund, client or account will be deemed to be an Affiliate of the Primary Person if the fund, client or account is advised or managed, directly or indirectly, by a person Controlling directly or indirectly the Primary Person or a person directly or indirectly under the common Control of the Primary Person and another person or persons.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed in writing by Bidder and Target.

Deed Poll means the deed poll dated 24 October 2018 executed by Bidder and HoldCo substantially in the form of Annexure C of the Scheme Implementation Agreement or as otherwise agreed by Bidder and Target under which Bidder covenants in favour of each Scheme Participant to perform (or procure performance of) its obligations under this Scheme.

Details means the section of this agreement headed "Details".

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Election means an election by a Management Shareholder to receive their Scheme Consideration partly in the form of HoldCo Shares and partly in the form of cash in accordance with clause 6.3(b).

Election Date means 5.00pm on the date that is three clear Business Days before the date of the applicable Scheme Meeting or such other date as is agreed in writing between Bidder and Target.

Election Form means a form issued by Target for the purposes of a Management Shareholder making an Election.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or (2) of the *Personal Property Securities Act 2009* (Cth), or any agreement to create any of them or allow them to exist.

End Date means 15 March 2019 or such other date as is agreed by Bidder and Target.

FCA means the Financial Conduct of Authority of the United Kingdom.

FIRB means the Foreign Investment Review Board.

Foreign Shareholder means a Scheme Participant whose address in the Register as at the Record Date is a place outside Australia or New Zealand unless Bidder and Target agree in writing that it is lawful and not unduly onerous or impracticable to issue HoldCo Shares to that Scheme Participant if the Scheme Participant so elects under the Scheme.

HoldCo means SME Capital Holdings Pty Ltd (ACN 628 947 544).

Annexure B – Scheme

HoldCo Constitution means the constitution adopted, or to be adopted, by HoldCo substantially in the form attached to the Election Form.

HoldCo Share means a fully paid ordinary share in the capital of HoldCo issued on the terms of issue set out in the Investment Deed.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to Target.

Implementation Date means the fifth Business Day following the Record Date or such other date as is agreed by Bidder and Target.

Investment Deed means the investment deed in relation to HoldCo substantially in the form attached to the Election Form.

Listing Rules means the Listing Rules of the ASX.

Management Shareholder means any Target Shareholder, other than a Foreign Shareholder, who is an employee (or an Affiliate of an employee) of a member of the Target Group and who earns an annual salary of \$200,000 or more.

OIO means the Overseas Investment Office of New Zealand.

Original Scheme Implementation Agreement means the scheme implementation agreement dated 24 September 2018 between Target and Bidder, which has been amended and replaced by the Scheme Implementation Agreement.

Record Date means 5.00pm on the fifth Business Day following the Effective Date or such other date as Target and Bidder agree.

Register means the register of members of Target maintained by or on behalf of Target in accordance with section 168(1) of the Corporations Act.

Registered Address means, in relation to a Target Shareholder, the address shown in the Register.

Regulatory Authority includes, in any jurisdiction:

- (a) a government or governmental, semi-governmental or judicial entity or authority;
- (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (c) any regulatory organisation established under statute,

and includes ASX, ACCC, ASIC, the Takeovers Panel, FIRB, APRA, AUSTRAC, OIO and FCA.

Scheme means this scheme of arrangement between Target and Scheme Participants under which all of the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act as described in clause 6, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Target and Bidder in accordance with clause 3.1(c).

Scheme Consideration means the consideration to be provided or procured by Bidder for the transfer of the Scheme Shares held by a Scheme Participant to Bidder determined in accordance with clause 6.3.

Scheme Implementation Agreement means the scheme implementation agreement dated 24 October 2018 between Target and Bidder, which amended and replaced the Original Scheme Implementation Agreement, under which, amongst other things, Target has agreed to propose this Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to this Scheme.

Scheme Meeting means any meeting of Target Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Target Shareholders will vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Participant means each person who is a Target Shareholder as at the Record Date.

Scheme Share means a Target Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued on or before the Record Date.

Scrip Scheme Consideration means the Scheme Consideration to be provided to Scheme Participants in the form of the issue of HoldCo Shares under clause 6.3(b)(i) of this Scheme.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act in favour of the Bidder as transferee, which may be a master transfer of all Scheme Shares.

Target Board means the board of directors of Target.

Target Group means Target and its Subsidiaries.

Target Option means an option over an unissued ordinary share in Target.

Target Registry means Link Market Service Limited (ACN 083 214 537).

Target Share means a fully paid ordinary share in the capital of Target.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Transaction means:

- (a) the proposed acquisition of the Target Shares by Bidder through implementation of the Scheme in accordance with the terms of this document; and
- (b) all associated transactions and steps contemplated in this document.

Trust Account means the trust account operated by or on behalf of Target to hold the Cash Scheme Consideration on trust for the purpose of paying the Cash Scheme Consideration to the Scheme Participants in accordance with clause 6.4.

Annexure B – Scheme

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

- (a) the singular includes the plural and vice versa;
- (b) a reference to a document includes any agreement or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);
- (c) a reference to a document also includes any variation, replacement or novation of it;
- (d) the meaning of general words is not limited by specific examples introduced by “including”, “for example”, “such as” or similar expressions;
- (e) a reference to “**person**” includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;
- (f) a reference to a particular person includes the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (g) a reference to a time of day is a reference to Sydney, Australia time;
- (h) a reference to dollars, \$ or A\$ is a reference to the currency of Australia;
- (i) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;
- (j) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually;
- (k) a reference to any thing (including an amount) is a reference to the whole and each part of it;
- (l) a period of time starting from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (m) if a party must do something under this document on or by a given day and it is done after 5.00pm on that day, it is taken to be done on the next day; and
- (n) if the day on which a party must do something under this document is not a Business Day, the party must do it on the next Business Day.

2 Preliminary

2.1 Target

Target is:

- (a) a public company limited by shares;
- (b) incorporated in Australia and registered in Victoria; and

- (c) admitted to the official list of the ASX and Target Shares are officially quoted on the stock market conducted by ASX.

As at 24 October 2018, Target's issued securities are:

- (a) Target Shares: 139,191,601; and
- (b) Target Options: 4,243,619.

2.2 Bidder

Bidder is:

- (a) a proprietary company limited by shares; and
- (b) incorporated in Australia and registered in New South Wales.

2.3 If Scheme becomes Effective

If this Scheme becomes Effective:

- (a) in consideration of the transfer of each Scheme Share to Bidder, Target will provide or procure the provision of the Scheme Consideration to each Scheme Participant in accordance with the terms of this Scheme and the Deed Poll;
- (b) all Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Bidder on the Implementation Date; and
- (c) Target will enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

2.4 Scheme Implementation Agreement

Target and Bidder have agreed by executing the Scheme Implementation Agreement to implement the terms of this Scheme.

2.5 Deed Poll

Bidder and HoldCo have executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) obligations attributed to them under this Scheme, including to provide the Scheme Consideration.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8.00am on the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms;
- (b) all of the conditions precedent in clause 3.1 of the Scheme Implementation Agreement (other than the condition precedent in clause

Annexure B – Scheme

3.1(d) of the Scheme Implementation Agreement) having been satisfied or (other than the conditions precedent in clauses 3.1(a) and 3.1(c) of the Scheme Implementation Agreement) waived in accordance with the terms of the Scheme Implementation Agreement;

- (c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Target and Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and
- (d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clauses 5 and 6

The satisfaction of each condition of clause 3.1 is a condition precedent to the operation of clause 5 and 6.

3.3 Certificate in relation to conditions precedent

Target and Bidder must provide to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 (other than the conditions precedent in clause 3.1(c) and clause 3.1(d)) have been satisfied or waived as at 8.00am on the Second Court Date.

The certificate referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 (other than the conditions precedent in clause 3.1(c) and 3.1(d)) have been satisfied or waived as at 8.00am on the Second Court Date.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Scheme Implementation Agreement or the Deed Poll is terminated in accordance with their terms.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 (other than the condition precedent in clause 3.1(d)) are satisfied, Target must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no

later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Bidder and Target agree in writing.

5.2 Transfer and registration of Target Shares

Subject to the Scheme becoming Effective, the following will occur on the Implementation Date in the order set out below:

- (a) Bidder confirming in writing to Target that:
 - (i) the Cash Scheme Consideration has been provided in accordance with clause 6.4(a); and
 - (ii) the Scrip Scheme Consideration has been provided in accordance with clause 6.4(e);
- (b) payment by Target of the Cash Scheme Consideration in the manner contemplated by clause 6.4(b);
- (c) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to Bidder without the need for any further act by any Scheme Participant (other than acts performed by Target as attorney and agent for Scheme Participants under clause 8 of this Scheme) by:
 - (i) Target delivering to Bidder a duly completed and executed Share Scheme Transfer, executed on behalf of the Scheme Participants by Target as their attorney and agent; and
 - (ii) Bidder duly executing the Share Scheme Transfer and delivering it to Target for registration; and
- (d) as soon as practicable after receipt of the duly executed Share Scheme Transfer in accordance with clause 5.2(c)(ii), Target must enter, or procure the entry of, the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

5.3 Title and rights in Scheme Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6, on and from the Implementation Date, Bidder will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by Target of Bidder in the Register as the holder of the Scheme Shares.

5.4 Scheme Participants' agreements

Under this Scheme, each Scheme Participant agrees:

- (a) to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme; and
- (b) to the extent they are, or are to be, issued with HoldCo Shares as a component of the Scheme Consideration to which they are entitled, to become a shareholder of HoldCo and to be bound by the HoldCo Constitution and the Investment Deed.

Annexure B – Scheme

5.5 Warranty by Scheme Participants

Each Scheme Participant warrants to Bidder and is deemed to have authorised Target to warrant to Bidder as agent and attorney for the Scheme Participant by virtue of this clause 5.5, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Bidder under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Bidder under the Scheme.

5.6 Transfer free of Encumbrances

To the extent permitted by law, all Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred to Bidder under this Scheme will, at the date of the transfer of them to Bidder, vest in Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

5.7 Appointment of Bidder as sole proxy

Immediately upon provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.4, on and from the Implementation Date until Target registers Bidder as the holder of all of the Scheme Shares in the Register, each Scheme Participant:

- (a) is deemed to have irrevocably appointed Target as attorney and agent (and directs Target in such capacity) to appoint Bidder and each of its directors, officers and any secretary or agent nominated by Bidder from time to time (jointly and each of them individually) as its sole proxy, and where applicable corporate representative, to:
 - (i) attend shareholders' meetings of Target, exercise the votes attaching to Scheme Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.7(a)); and
 - (ii) execute and deliver any deed or document required by Target, Bidder or HoldCo that causes each Scheme Participant entitled to HoldCo Shares to be bound by the Investment Deed and the HoldCo Constitution;
- (b) must take all other actions in the capacity of the registered holder of Scheme Shares as Bidder reasonably directs; and
- (c) acknowledges and agrees that in exercising the powers referred to in clause 5.7(a), Bidder and any director, officer, secretary or agent nominated under clause 5.7(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

Target undertakes in favour of each Scheme Participant that it will appoint Bidder and each of its directors, officers and any secretary or agent nominated by Bidder from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.7(a).

5.8 Amendments to Investment Deed

Bidder must ensure (and must procure that HoldCo ensures) that the Investment Deed is not amended without the consent of Target, before the issue of any HoldCo Shares to the Management Shareholders who have made valid Elections in accordance with clause 6.2.

6 Scheme Consideration

6.1 Consideration under the Scheme

On the Implementation Date, in consideration for the transfer to Bidder of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clauses 6.2 to 6.4.

6.2 Election procedure

- (a) Subject to clauses 6.2(b), 6.2(c), and 6.2(d), each of the Management Shareholders will be entitled to make an Election. All Elections will take effect in accordance with this Scheme to the extent that any Management Shareholder who makes an Election qualifies as a Scheme Participant.
- (b) A Management Shareholder who makes an Election may vary, withdraw or revoke that Election by lodging a replacement Election Form so that it is received on or before the Election Date.
- (c) An Election must be made in accordance with the terms and conditions of the Election Form and this clause 6.2, and an Election not so made will not be a valid Election for the purpose of this Scheme and will not be recognised by Bidder or Target for any purpose (provided that Bidder may, with the agreement of Target, waive this requirement and may, with the agreement of Target, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with determining the validity of any Election, and any such decision will be conclusive and binding on Bidder, Target and the relevant Management Shareholder).
- (d) If a Management Shareholder makes an Election, that Election will be deemed to apply in respect of that Management Shareholder's entire registered holding of Target Shares at the Record Date, regardless of whether the Management Shareholder's holding of Target Shares at the Record Date is greater or less than the Management Shareholder's holding at the time it made its Election, unless Bidder and Target agree otherwise, in their absolute discretion.

6.3 Determination Scheme Consideration

- (a) If the Scheme Participant is not a Management Shareholder or is a Management Shareholder who has not made a valid Election on or before the Election Date, then the Scheme Consideration applicable for that Scheme Participant is \$4.40 for each Scheme Share held by the Scheme Participant.
- (b) If the Scheme Participant is a Management Shareholder who has made a valid Election on or before the Election Date, then the Scheme Consideration applicable for that Scheme Participant is:
 - (i) in respect of 50% of the Scheme Shares held by the Scheme Participant (rounded down to the nearest whole Scheme Share), 1 HoldCo Share per Scheme Share; *plus*

Annexure B – Scheme

- (ii) in respect of the balance of the Scheme Shares held by the Scheme Participant, \$4.40 per Scheme Share.

For the purpose of clause 6.3(b), the Scheme Participant may determine which Scheme Shares will be exchanged for HoldCo Shares in accordance with paragraph (i), and which Scheme Shares will be acquired for cash in accordance with paragraph (ii).

6.4 Provision of Scheme Consideration

- (a) The obligation of the Target to procure payment of the Cash Scheme Consideration pursuant to clauses 2.3(a) and 5.2(b) will be satisfied by Target procuring Bidder to, no later than one Business Day before the Implementation Date, deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the Cash Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited, less bank fees and other charges, will be credited to Bidder's account) such amount to be held by Target on trust for the purpose of paying the Cash Scheme Consideration to Scheme Participants who are entitled to receive it pursuant to clause 6.4(b).
- (b) On the Implementation Date, and subject to receipt of the Cash Scheme Consideration from Bidder in accordance with clause 6.4(a), Target must pay (or procure payment) from the Trust Account to each Scheme Participant an amount equal to the applicable amount of Cash Scheme Consideration for each Scheme Share transferred to Bidder on the Implementation Date by that Scheme Participant.
- (c) Target's obligation under clause 6.4(b) will be satisfied by Target:
 - (i) depositing (or procuring the deposit of) the relevant amount into an account with any Australian ADI (as defined in the Corporations Act) notified to Target by an appropriate authority from the Scheme Participant; or
 - (ii) sending (or procuring the sending of) a cheque for the relevant amount, drawn in Australian currency, to the address of the Scheme Participant as recorded in the Register on the Record Date by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post).
- (d) To the extent that following the satisfaction of Target's obligations under clause 6.4(b), there is a surplus in the Trust Account, that surplus must be paid by Target to Bidder.
- (e) Bidder must procure that HoldCo must, before no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, procure that the name of each Scheme Participant entitled to be issued HoldCo Shares under this Scheme is entered in HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Scheme Participant, having the same holding name and address and other details as the holding of the relevant Target Shares).
- (f) On or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of a certificate to each Scheme Participant entitled to be issued HoldCo Shares under this Scheme, reflecting the issue of such HoldCo Shares.

6.5 Cancellation and reissue of cheques

Target may cancel a cheque issued under clause 6.4 if the cheque:

- (a) is returned to Target; or
- (b) has not been presented for payment within 6 months after the date on which the cheque was sent.

During the period of one year commencing on the Implementation Date, on request from a Scheme Participant to Target (or Target Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Target must reissue a cheque that was previously cancelled under this clause 6.5.

6.6 Status of HoldCo Shares

Subject to this Scheme becoming Effective, Bidder must procure that HoldCo:

- (a) issue (or procure the issue of) the HoldCo Shares required to be issued under this Scheme on terms such that each such HoldCo Share will rank equally in all respects with each other HoldCo Share on issue at the time and will have the rights set out in the HoldCo Constitution and the Investment Deed; and
- (b) ensure that each HoldCo Share required to be issued under this Scheme is duly and validly issued in accordance with all applicable laws and the HoldCo Constitution, and is fully paid and free from any Encumbrance (except for any lien arising under the HoldCo Constitution).

6.7 Orders of a court or Regulatory Authority

In the case of notice having been given to Target (or the Target Registry) of an order or direction made by a court of competent jurisdiction or Regulatory Authority:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.4, then Target must procure that payment is made in accordance with that order or direction; or
- (b) which would prevent Target from dispatching payment to any particular Scheme Participant in accordance with clause 6.4, Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the applicable amount of Cash Scheme Consideration until such time as payment in accordance with clause 6.4 is permitted by the order or direction or otherwise permitted by law,

and the payment or retention by Target will constitute full discharge of Target's obligations under clause 6.4(a) with respect of the amount so paid or retained until, in the case of clause 6.7(b), it is no longer required to be retained.

6.8 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be paid to Scheme Participants by Bidder must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at the Record Date;

Annexure B – Scheme

- (b) any HoldCo Shares comprised in the Scheme Consideration are to be registered in the names of the joint holders; and
- (c) any other document required to be sent under this Scheme will be forwarded, at the sole discretion of Target, either to the holder whose name appears first in the Register as at the Record Date or to joint holders.

6.9 Fractional Entitlements

Where the calculation of the Cash Scheme Consideration or the Scrip Scheme Consideration to be provided to a particular Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, or fraction of a Holdco Share, the fractional entitlement will be rounded down (as applicable) to the nearest cent or Holdco Share as the case may be.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Target if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Record Date at the place where the Register is kept.

7.2 Register

Target must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) on or before the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a Scheme Participant (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after the Record Date (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title) and any attempt to do so will have no effect and Target will be entitled to disregard any such disposal.

7.4 Maintenance of Register

For the purpose of determining entitlements to the Scheme Consideration, Target will maintain the Register in accordance with the provisions of this clause 7 until the Scheme Consideration has been paid to the Scheme Participants and Bidder has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to Bidder contemplated in clauses 5.2 and 7.4, any statements of holding in respect of Scheme Shares will cease to have effect after the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Bidder and its successors in title). After the Record Date, each entry current on the Register as at the Record Date (other than entries in respect of Bidder or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

7.6 Details of Scheme Participants

Within three Business Days after the Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at the Record Date are available to Bidder in such form as Bidder reasonably requires.

7.7 Quotation of Target Shares

Target will apply to ASX to suspend trading on ASX in Target Shares with effect from the close of trading on ASX on the Effective Date.

7.8 Termination of quotation of Target Shares

On a date after the Implementation Date to be determined by Bidder, Target will apply:

- (a) for termination of the official quotation of Target Shares on ASX; and
- (b) to have itself removed from the official list of the ASX.

8 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Target and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

- (a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer;
- (b) executing and delivering any deed or document required by Target, Bidder or HoldCo that causes each Scheme Participant entitled to HoldCo Shares to become a shareholder of HoldCo and to be bound by the Investment Deed and the HoldCo Constitution; and
- (c) enforcing the Deed Poll against Bidder,

and Target accepts such appointment.

9 Notices

9.1 No deemed receipt

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date

Annexure B – Scheme

and time (if any) on which it is actually received at Target's registered office or at the office of the Target Registry.

9.2 Accidental omission

The accidental omission to give notice of a Scheme Meeting or the non-receipt of such a notice by any Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 General

10.1 Variations, alterations and conditions

Target may, with the consent of Bidder (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned (including, for the avoidance of doubt, all Scheme Participants) to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

10.2 Binding effect of Scheme

To the extent of any inconsistency, this Scheme overrides the Target's constitution and binds Target and all of the Scheme Participants (including those who did not attend a Scheme Meeting and those who did not vote, or voted against this Scheme, at that meeting).

10.3 Further action by Target

Target will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

10.4 Authority and acknowledgement

Each of the Scheme Participants:

- (a) irrevocably consents to Target and Bidder doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds Target and all Scheme Participants (including those who do not attend a Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Target.

10.5 No liability when acting in good faith

Neither Target, Bidder nor HoldCo, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

10.6 Enforcement of Deed Poll

Target undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidder and/or HoldCo on behalf of and as agent and attorney for the Scheme Participants.

10.7 Stamp duty

Bidder will:

- (a) pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Participant against any liability incurred by the Scheme Participant arising from failure to comply with clause 10.7(a).

11 Governing law

11.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

11.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address set out in the Details.



Annexure C – Deed Poll

Deed Poll

Dated 24 October 2018

Given by

SME Capital Investments III Pty Ltd (ACN 628 950 514) (“**Bidder**”)

SME Capital Holdings Pty Ltd (ACN 628 947 544) (“**HoldCo**”)

In favour of each registered holder of fully paid ordinary shares in
Scottish Pacific Group Limited (ACN 164 013 110) (“**Target**”) as at the
Record Date (“**Scheme Participants**”)

Annexure C – Deed Poll

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Deed Poll

Details

Parties

| | | |
|---------------|-----------|---|
| Bidder | Name | SME Capital Investments III Pty Ltd |
| | ACN | 628 950 514 |
| | Formed in | New South Wales |
| | Address | C/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 |
| | Email | aarongoh@affinityequity.com and robinong@affinityequity.com |
| | Attention | Aaron Goh and Robin Ong |

| | | |
|---------------|-----------|---|
| HoldCo | Name | SME Capital Holdings Pty Ltd |
| | ACN | 628 947 544 |
| | Formed in | New South Wales |
| | Address | C/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 |
| | Email | aarongoh@affinityequity.com and robinong@affinityequity.com |
| | Attention | Aaron Goh and Robin Ong |

| | |
|---------------------|--|
| In favour of | Each registered holder of fully paid ordinary shares in Target as at the Record Date (" Scheme Participants "). |
|---------------------|--|

| | |
|----------------------|-----------------|
| Governing law | New South Wales |
|----------------------|-----------------|

| | | |
|-----------------|----------|--|
| Recitals | A | The directors of Target have resolved that Target should propose the Scheme. |
| | B | The effect of the Scheme will be that all Scheme Shares will be transferred to Bidder. |
| | C | Target and Bidder have entered into the Scheme Implementation Agreement. |

Annexure C – Deed Poll

- D** In the Scheme Implementation Agreement, Bidder agreed (amongst other things) to provide or procure the provision of the Scheme Consideration to Target on behalf of the Scheme Participants, subject to the satisfaction or waiver of certain conditions.
- E** Each of Bidder and HoldCo is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform (or procure the performance of) obligations attributed to it under the Scheme.
-

Deed Poll

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

Equity Commitment Letter means a binding executed commitment letter addressed to Bidder from Concordant Investments Pte Ltd dated on or about the date of this document.

Liability means a debt, liability or obligation, whether actual, prospective, contingent or otherwise and whether or not ascertained, and whether or not owing or incurred alone, or jointly and severally, with any other person.

Original Scheme Implementation Agreement means the scheme implementation agreement dated 24 September 2018 between Target and Bidder, which has been amended and replaced by the Scheme Implementation Agreement.

Scheme means the proposed scheme of arrangement between Target and Scheme Participants under which all the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this document, or as otherwise agreed by Bidder and Target, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by Target and Bidder in accordance with clause 3.1(c) of the Scheme.

Scheme Implementation Agreement means the scheme implementation agreement dated 24 October 2018 between Target and Bidder, which amended and replaced the Original Scheme Implementation Agreement, under which, amongst other things, Target has agreed to propose the Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to the Scheme.

All other words and phrases used in this document have the same meaning as given to them in the Scheme.

1.2 General interpretation

Clause 1.2 of the Scheme applies to this document.

1.3 Nature of deed poll

Bidder and HoldCo acknowledge that:

- (a) this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints Target as its agent and attorney to enforce this document against Bidder and HoldCo on behalf of the Scheme Participant.

2 Conditions precedent and termination

2.1 Conditions precedent

Each of Bidder's and HoldCo's obligations under clause 4 are subject to the Scheme becoming Effective.

2.2 Termination

Each of Bidder's and HoldCo's obligations under this document will automatically terminate and the terms of this document will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date; or
- (b) the Scheme Implementation Agreement is terminated in accordance with its terms.

2.3 Consequences of termination

If this document is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) Bidder and HoldCo are released from their obligations to further perform this document except Bidder's obligations contained in clause 7.2 and any other obligations which by their nature survive termination; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against Bidder and HoldCo in respect of any breach of this document which occurs before it is terminated.

3 Performance of obligations generally

Bidder will comply with its obligations under the Scheme Implementation Agreement and, subject to clause 2, each of Bidder and HoldCo covenants in favour of the Scheme Participants that it will perform (or procure the performance of) obligations attributed to it under the Scheme as if Bidder and HoldCo were party to the Scheme.

4 Scheme Consideration

4.1 Scheme Consideration

Subject to clause 2, Bidder and HoldCo undertake in favour of each Scheme Participant to:

- (a) provide or procure the provision of the Scheme Consideration to the Scheme Participants in accordance with the Scheme; and
- (b) undertake all other actions attributed to them under the Scheme, subject to and in accordance with the Scheme.

4.2 Provision of Scheme Consideration

The obligations of Bidder and HoldCo under clause 4.1 will be satisfied if, in respect of the Scheme Consideration:

- (a) Bidder, no later than one Business Day before the Implementation Date, deposits (or procures the deposit) in Immediately Available Funds the aggregate amount of the Cash Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited, less bank fees and other charges, will be credited to Bidder's account);
- (b) no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, HoldCo issues all of the HoldCo Shares which it is obligated to issue to applicable Scheme Participants under the Scheme and Bidder provides Target with written confirmation that HoldCo has done so;
- (c) Bidder and HoldCo no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, procure that the name of each Scheme Participant entitled to be issued HoldCo Shares under the Scheme is entered in HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Scheme Participant, having the same holding name and address and other details as the holding of the relevant Target Shares); and
- (d) on or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of a certificate to each Scheme Participant entitled to be issued HoldCo Shares under the Scheme, reflecting the issue of such HoldCo Shares,

in each case, in accordance with, and subject to, the provisions of the Scheme.

4.3 HoldCo Shares to rank equally

HoldCo covenants in favour of each Scheme Participant entitled to be issued HoldCo Shares that the HoldCo Shares issued in accordance with the Scheme will:

- (a) rank equally in all respects with each other HoldCo Share on issue at the time and will have the rights set out in the HoldCo Constitution and the Investment Deed; and
- (b) be issued fully paid and free from any mortgage, charge, lien, Encumbrance or other security interest.

5 Representations and warranties

- (a) Each of Bidder and HoldCo represents and warrants, in respect of itself, that:
 - (i) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation or formation, is validly existing under those laws and has power and authority to own its assets and carry on its business as it is now being conducted;
 - (ii) **(power)** it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;
 - (iii) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document do not and will not conflict with:

Annexure C – Deed Poll

- (A) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded;
 - (B) any law, judgment, ruling, order or decree binding on or applicable to it or its assets; or
 - (C) any Encumbrance or document binding on or applicable to it;
 - (iv) **(authorisations)** it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;
 - (v) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms; and
 - (vi) **(solvency)** is not Insolvent.
- (b) Each of Bidder and HoldCo represents and warrants to each Scheme Participant that, immediately prior to implementation of the Scheme, each of Bidder and HoldCo:
- (i) has not commenced trading or conducted business other than, in connection with their respective incorporations (as applicable), entry into the Scheme Implementation Agreement and any ancillary documents (as agreed between Target and Bidder for the purposes of this clause), the Equity Commitment Letter, the Investment Deed, the Disclosure Letter and this document and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Transaction) (each a “**Relevant Matter**”);
 - (ii) does not own any assets and does not have any Liabilities, other than assets derived, or Liabilities incurred, in connection with, as applicable, a Relevant Matter or otherwise disclosed in writing to Target prior to the date of the Scheme Implementation Agreement; and
- in each case, other than as expressly contemplated in this document or the Scheme.
- (c) HoldCo warrants to each Scheme Participant that receives HoldCo Shares in accordance with the Scheme that, from the date of the Scheme Implementation Agreement until immediately prior to the implementation of the Scheme, it has not issued any HoldCo Shares:
- (i) other than for cash;
 - (ii) at an issue price that is less than \$4.40 per HoldCo Share; and
 - (iii) other than in connection with the funding of the Scheme Consideration or the payment of costs, fees and expenses incurred in connection with the Transaction,
- unless otherwise agreed with Target.

6 Continuing obligations

- (a) Subject to clause 9.1, this document is irrevocable and, subject to clause 2, remains in full force and effect until:
 - (i) Bidder and HoldCo have fully performed their respective obligations under this document; or
 - (ii) the earlier termination of this document under clause 2.2.
- (b) From the date of this document until immediately prior to the implementation of the Scheme, HoldCo will not issue any HoldCo Shares:
 - (i) other than for cash;
 - (ii) at an issue price that is less than \$4.40 per HoldCo Share; and
 - (iii) other than in connection with the funding of the Scheme Consideration or payment of costs, fees and expenses incurred in connection with the Transaction,unless otherwise agreed by Target.

7 Costs

7.1 Costs

Bidder agrees to pay all costs in respect of the Scheme (including in connection with the transfer of Target Shares to Bidder in accordance with the terms of the Scheme).

7.2 Stamp duty and registration fees

Bidder:

- (a) agrees to pay or reimburse all stamp duty, registration fees and similar taxes payable or assessed as being payable in connection with this document, or any other transaction contemplated by this document (including any fees, fines, penalties and interest in connection with any of these amounts); and
- (b) indemnifies each Scheme Participant against, and agrees to reimburse and compensate it, for any liability in respect of stamp duty under clause 7.2(a).

8 Notices

Notices and other communications in connection with this document must be in writing. They must be sent to the address or email address referred to in the Details and (except in the case of email) marked for the attention of the person referred to in the Details. If the intended recipient has notified changed contact details, then communications must be sent to the changed contact details.

9 General

9.1 Variation

A provision of this document or any right created under it may not be varied, altered or otherwise amended by Bidder or Holdco unless:

- (a) if before the First Court Date, the variation is agreed to by Target in writing; and
- (b) if on or after the First Court Date, the variation is agreed to by Target in writing and the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Bidder and HoldCo must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

9.2 Partial exercising of rights

Unless this document expressly states otherwise, if Bidder or HoldCo does not exercise a right, power or remedy in connection with this document fully or at a given time, it may still exercise it later.

9.3 Remedies cumulative

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

9.4 Assignment or other dealings

Bidder, HoldCo and each Scheme Participant may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied without the consent of Bidder and Target.

9.5 Further steps

Bidder and HoldCo agree to do anything including executing all documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this document and the transactions contemplated by it.

9.6 Counterparts

This document may consist of a number of copies, each signed by one or more parties to it. If so, the signed copies are treated as making up a single document.

10 Governing law and jurisdiction

10.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. Bidder and HoldCo submit to the non-exclusive jurisdiction of the courts of that place.

10.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on Bidder or HoldCo by being delivered or left at Bidder's or HoldCo's respective address set out in the Details.

EXECUTED as a deed poll

Annexure C – Deed Poll

Deed Poll

Signing page

DATED: 24 October 2018

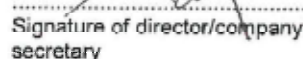
EXECUTED by SME CAPITAL
INVESTMENTS III PTY LTD in
accordance with section 127(1) of the
Corporations Act 2001 (Cth) by
authority of its directors:



Signature of director

ROBIN ONA ENG JIN

Name of director (block letters)

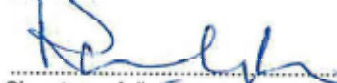


Signature of director/company
secretary

KOK YEW TANG

Name of director/company secretary
(block letters)

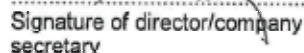
EXECUTED by SME CAPITAL
HOLDINGS PTY LTD in accordance
with section 127(1) of the Corporations
Act 2001 (Cth) by authority of its
directors:



Signature of director

ROBIN ONA ENG JIN

Name of director (block letters)



Signature of director/company
secretary

KOK YEW TANG

Name of director/company secretary
(block letters)

Deed Poll

Annexure A - Scheme

Not reproduced here – please see Annexure B of the Scheme Booklet.



Annexure D – Notices of Scheme Meetings



SCOTTISH PACIFIC GROUP LIMITED
ABN 45 164 013 110
("SCOTTISH PACIFIC")

NOTICE OF COURT-ORDERED MEETING OF SCOTTISH PACIFIC MANAGEMENT SHAREHOLDERS ("NOTICE OF MANAGEMENT SCHEME MEETING")

Notice is given that, by order of the Supreme Court of Victoria (**Court**) made on 26 October 2018 under section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the Court has directed that a meeting of Management Shareholders of Scottish Pacific who have made a valid election for the Scrip Option (as described in the Scheme Booklet relating to the Scheme)) (**Eligible Management Shareholders**) (**Management Scheme Meeting**) be held:

Date: Friday, 30 November 2018

Time: 10:30am (Sydney time)

Venue: Dexus Place, Level 5, 1 Margaret St Sydney NSW 2000

The Court has directed that Patrick Elliott, or, failing him, Andrew Love, act as Chairman of the Management Scheme Meeting and has directed the Chairman to report the result of that meeting to the Court.

The Scottish Pacific Scheme Meeting of Scottish Pacific Shareholders (excluding Eligible Management Shareholders) will be held immediately following the conclusion of the Management Scheme Meeting.

PURPOSE OF THE MANAGEMENT SCHEME MEETING

The purpose of the Management Scheme Meeting is to consider and, if thought fit, to agree (with or without any modification or conditions approved by the Court to which Scottish Pacific and the Bidder agree) to a scheme of arrangement proposed to be made between Scottish Pacific and the holders of its ordinary shares as at the Scheme Record Date pursuant to Part 5.1 of the Corporations Act (**Scheme**).

SCHEME RESOLUTION

The Management Scheme Meeting will be asked to consider and, if thought fit, pass the following resolution:

'That pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Scottish Pacific and Scottish Pacific Shareholders, as more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to (with or without any modifications or conditions ordered by the Court to which Scottish Pacific and the Bidder agree) and, subject to approval of the Scheme by the Court, the Scottish Pacific Board is authorised to implement the Scheme with any such modifications or conditions.'

BY ORDER OF THE COURT AND THE BOARD

David Rose
Company Secretary
1 November 2018

Annexure D – Notices of Scheme Meetings

EXPLANATORY NOTES

To enable you to make an informed decision on the Scheme Resolution, a copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this Notice of Management Scheme Meeting forms part. Terms used in this Notice of Management Scheme Meeting have the same meaning as set out in the Glossary in Section 9 of the Scheme Booklet.

Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or a corporate representative are set out in the Section “How to vote” (commencing on page 12) and under the heading “Scheme, voting and approvals” in the “Frequently asked questions and answers” Section (commencing on page 23) of the Scheme Booklet.

ENCLOSURES

Enclosed are the following documents:

- proxy form to be completed if you would like to be represented at the Management Scheme Meeting by proxy. Eligible Management Shareholders are encouraged to use the online voting facility that can be accessed on Scottish Pacific’s share registry’s website at www.linkmarketservices.com.au to ensure the timely and cost effective receipt of your proxy; and
- a reply paid envelope for you to return the proxy form.



SCOTTISH PACIFIC GROUP LIMITED
ABN 45 164 013 110
("SCOTTISH PACIFIC")

**NOTICE OF COURT-ORDERED MEETING OF SCOTTISH PACIFIC SHAREHOLDERS
("NOTICE OF SCOTTISH PACIFIC SCHEME MEETING")**

Notice is given that, by order of the Supreme Court of Victoria (**Court**) made on 26 October 2018 under section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the Court has directed that a meeting of Scottish Pacific Shareholders (excluding Management Shareholders who have made a valid election for the Scrip Option (as described in the Scheme Booklet relating to the Scheme)) (**Scottish Pacific Scheme Meeting**) be held:

Date: Friday, 30 November 2018

Time: Immediately following the conclusion of the Management Scheme Meeting being held at 10:30am (Sydney time)

Venue: Dexus Place, Level 5, 1 Margaret St Sydney NSW 2000

The Court has directed that Patrick Elliott, or, failing him, Andrew Love, act as Chairman of the Scottish Pacific Scheme Meeting and has directed the Chairman to report the result of that meeting to the Court.

The Annual General Meeting of Scottish Pacific Shareholders will be held immediately following the conclusion of the Scottish Pacific Scheme Meeting.

PURPOSE OF THE SCOTTISH PACIFIC SCHEME MEETING

The purpose of the Scottish Pacific Scheme Meeting is to consider and, if thought fit, to agree (with or without any modification or conditions approved by the Court to which Scottish Pacific and the Bidder agree) to a scheme of arrangement proposed to be made between Scottish Pacific and the holders of its ordinary shares as at the Scheme Record Date pursuant to Part 5.1 of the Corporations Act (**Scheme**).

SCHEME RESOLUTION

The Scottish Pacific Scheme Meeting will be asked to consider and, if thought fit, pass the following resolution:

'That pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Scottish Pacific and Scottish Pacific Shareholders, as more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to (with or without any modifications or conditions ordered by the Court to which Scottish Pacific and the Bidder agree) and, subject to approval of the Scheme by the Court, the Scottish Pacific Board is authorised to implement the Scheme with any such modifications or conditions.'

BY ORDER OF THE COURT AND THE BOARD

David Rose
Company Secretary
1 November 2018

Annexure D – Notices of Scheme Meetings

EXPLANATORY NOTES

To enable you to make an informed decision on the Scheme Resolution, a copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this Notice of Scottish Pacific Scheme Meeting forms part. Terms used in this Notice of Scottish Pacific Scheme Meeting have the same meaning as set out in the Glossary in Section 9 of the Scheme Booklet.

Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or a corporate representative are set out in the Section “How to vote” (commencing on page 12) and under the heading “Scheme, voting and approvals” in the “Frequently asked questions and answers” Section (commencing on page 23) of the Scheme Booklet.

ENCLOSURES

Enclosed are the following documents:

- proxy form to be completed if you would like to be represented at the Scottish Pacific Scheme Meeting by proxy. Shareholders are encouraged to use the online voting facility that can be accessed on Scottish Pacific’s share registry’s website at www.linkmarketservices.com.au to ensure the timely and cost effective receipt of your proxy; and
- a reply paid envelope for you to return the proxy form.

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

SME Capital Investments III Pty Ltd (ACN 628 950 514) (“**Bidder**”)
Scottish Pacific Group Limited (ABN 45 164 013 110) (“**Target**”)

KING&WOOD
MALLESONS

Legal adviser to the Bidder



Legal and tax adviser to the
Target

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement Contents

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Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

Details

Parties

| | | |
|---------------|-----------|--|
| Bidder | Name | SME Capital Investments III Pty Ltd |
| | ACN | 628 950 514 |
| | Formed in | New South Wales |
| | Address | C/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 |
| | Email | aarongoh@affinityequity.com and robinong@affinityequity.com |
| | Attention | Aaron Goh and Robin Ong |

| | | |
|---------------|-----------|---|
| Target | Name | Scottish Pacific Group Limited |
| | ABN | 45 164 013 110 |
| | Formed in | Victoria |
| | Address | Level 5, 20 Bond Street, Sydney NSW 2000 |
| | Email | PatrickElliott@nextcapital.com.au LanghamP@scottishpacific.com |
| | Attention | Patrick Elliott |

| | |
|----------------------|-----------------|
| Governing law | New South Wales |
|----------------------|-----------------|

| | | |
|-----------------|----------|---|
| Recitals | A | Target and Bidder have agreed to merge by means of a members' scheme of arrangement under Part 5.1 of the Corporations Act. |
| | B | At the request of Bidder, Target intends to propose the Scheme and issue the Scheme Booklet. |
| | C | Target and Bidder have agreed to implement the Scheme on the terms and conditions of this document. |

Scheme Implementation Agreement

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

Accounting Standards means:

- (a) the requirements of the Corporations Act about the preparation and contents of financial reports; and
- (b) the accounting standards approved under the Corporations Act, being the Australian Accounting Standards and any authoritative interpretations issued by the Australian Accounting Standards Board.

Affiliate means in respect of a person (**Primary Person**), a person:

- (a) Controlled directly or indirectly by the Primary Person;
- (b) Controlling directly or indirectly the Primary Person; or
- (c) directly or indirectly under the common Control of the Primary Person and another person or persons.

Anti-Corruption Laws means:

- (a) the U.S. Foreign Corrupt Practices Act of 1977, as amended;
- (b) the UK Bribery Act 2010;
- (c) the *Criminal Code Act 1995* (Cth); and
- (d) any similar applicable law that has as its objective the prevention of corruption, including without limitation legislation enacted in furtherance of the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions 1997.

Anti-Money Laundering Laws means anti-money laundering laws and regulations applicable to the Target Group from time to time, including without limitation the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).

APRA means the Australia Prudential Regulation Authority.

ASIC means the Australian Securities & Investments Commission.

Associate has the meaning set out in section 12 of the Corporations Act, as if section 12(1) of the Corporations Act included a reference to this document.

ASX means ASX Limited or the market operated by it, as the context requires.

Annexure E – Scheme Implementation Agreement

AUSTRAC means the Australian Transaction Reports and Analysis Centre.

Authorised Officer means a director or secretary of a party or any other person nominated by a party to act as an Authorised Officer for the purposes of this document.

Bidder Board means the board of directors of Bidder.

Bidder Confidential Information means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on, or after the date of this document relating to the business, technology or other affairs of Bidder.

Bidder Group means Bidder and its Subsidiaries and Concordant Investments Pte Ltd and any of its Subsidiaries that directly or indirectly controls Bidder and its Subsidiaries and a reference to **Bidder Group Member** is to any of them, but does not include any other Subsidiaries or portfolio companies of Concordant Investments Pte Ltd.

Bidder Indemnified Party means each Bidder Group Member and its Affiliates and each director, officer, employee, advisers, general or limited partner, manager, agent, member and representative of each Bidder Group Member and each of its Affiliates.

Bidder Information means the information regarding Bidder as is required to be included in the Scheme Booklet under the Corporations Act, Corporations Regulations or ASIC Regulatory Guide 60. Bidder Information does not include information about the Target Group (except to the extent it relates to any statement of intention relating to the Target Group following the Effective Date).

Bidder Representations and Warranties means the representations and warranties of Bidder set out in clause 13.4.

Break Fee means \$6,100,000.

Business Day means a business day as defined in the Listing Rules.

Cash Scheme Consideration has the meaning given in the Scheme.

Change of Control Authorisations means any:

- (a) regulatory approval required in connection with the Scheme or any aspect of it;
- (b) matter which is the subject of a Condition Precedent; or
- (c) Change of Control Requirements.

Change of Control Requirements has the meaning given in clause 8.7(a).

Competing Transaction means a proposal, transaction or arrangement (whether by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale or issue of securities, joint venture or otherwise) which, if completed, would mean a person (other than Bidder or its Related Bodies Corporate) whether alone or together with its Associates would:

- (a) directly or indirectly, acquire an interest or Relevant Interest in or become the holder of 20% or more of the Target Shares (other than as custodian, nominee or bare trustee);

- (b) acquire control of Target, within the meaning of section 50AA of the Corporations Act;
- (c) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an economic interest in all or a substantial part of the assets of, or business conducted by, the Target Group; or
- (d) otherwise acquire or merge (including by a reverse takeover bid or dual listed company structure) with Target.

Conditions Precedent means the conditions precedent set out in clause 3.1.

Confidentiality Agreement means the Confidentiality Agreement between Target and Affinity Equity Partners (S) Pte Ltd dated 19 June 2018.

Confidential Information means Bidder Confidential Information or Target Confidential Information.

Consolidated Group has the same meaning as in the Tax Act.

Control means, with respect to any person (other than an individual), the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise, and includes the following:

- (a) direct or indirect ownership of more than 50% of the voting rights of such person; or
- (b) the right to appoint the majority of the members of the board of directors of such person (or similar governing body) or to manage on a discretionary basis the assets of such person,

and, for the avoidance of doubt, and, solely for the purposes of the definition of Affiliate:

- (c) a general partner is deemed to Control a limited partnership;
- (d) a fund, client or account advised or managed, directly or indirectly, by a person will also be deemed to be Controlled by such person; and
- (e) a fund, client or account will be deemed to be an Affiliate of the Primary Person if the fund, client or account is advised or managed, directly or indirectly, by a person Controlling directly or indirectly the Primary Person or a person directly or indirectly under the common Control of the Primary Person and another person or persons.

Controller has the meaning it has in the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Costs includes costs, charges and expenses, including those incurred in connection with advisers and any legal costs on a full indemnity basis.

Court means the Supreme Court of Victoria, or such other court of competent jurisdiction under the Corporations Act agreed by the parties.

Deed Poll means a deed poll substantially in the form of Annexure C to this document.

Annexure E – Scheme Implementation Agreement

Details means the section of this document headed “Details”.

Director Target Shares means, in respect of a Target Board Member, any Target Share:

- (a) held by or on behalf of the Target Board Member;
- (b) listed as an indirect interest in the latest Appendix 3X or Appendix 3Y lodged by Target with ASX in respect of the Target Board Member; or
- (c) in which an associate of the Target Board Member has a Relevant Interest.

Disclosure Letter means the letter identified as such provided by Target to Bidder and countersigned by Bidder on or about the date of this document.

Disclosure Materials means the information in relation to the Target Group disclosed in writing by or on behalf of Target to Bidder and its Representatives in:

- (a) the documents and information contained in the data room (including any written answers to requests for further information made by Bidder and its Representatives) made available by Target to Bidder and its Representatives, the index of which has been initialled by, or on behalf of, the parties for the purposes of identification;
- (b) the Disclosure Letter; and
- (c) the Warehouse Facilities Report.

Effective, when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Election has the meaning given in the Scheme.

Election Form has the meaning given in the Scheme.

Employee Share Right means a Target Option issued under the LTI Plan.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any “security interest” as defined in sections 12(1) or 12(2) of the PPSA or any agreement to create any of them or allow them to exist.

End Date means 15 March 2019 or such other date as is agreed by Bidder and Target.

Equity Commitment Letter means a binding executed commitment letter addressed to Bidder from Concordant Investments Pte Ltd dated on or about the date of this document.

Excluded Information means Confidential Information which:

- (a) is in or becomes part of the public domain other than through breach of this document or an obligation of confidence owed to the party providing the Confidential Information; or

- (b) the recipient of the Confidential Information can prove by contemporaneous written documentation was already known to it at the time of disclosure by the party providing the Confidential Information (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality); or
- (c) the recipient of the Confidential Information acquires from a source other than the party providing the Confidential Information or any Representative of the party providing the Confidential Information where such source is entitled to disclose it.

Exclusivity Period means the period from and including the date of this document to the earlier of:

- (a) the termination of this document in accordance with its terms; and
- (b) the End Date.

FCA means the Financial Conduct Authority of the United Kingdom.

FIRB means the Foreign Investment Review Board.

FIRB Act means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Fairly Disclosed means, in relation to a matter, event or circumstance, publicly disclosed to the ASX or disclosed to the relevant party or its Representatives by 5:00pm on the date prior to the date of this document to the extent, and in reasonably sufficient detail, so as to allow a reasonable and sophisticated bidder (or one of its Representatives) experienced in transactions similar to the Scheme to identify or otherwise determine the nature and scope of the relevant matter, event or circumstance.

First Court Date means the first day on which an application made to the Court, in accordance with clause 5.2(h), for orders under section 411(1) of the Corporations Act convening the Scheme Meetings is heard.

Foreign Shareholder means a Scheme Participant whose address in the Register as at the Record Date is a place outside Australia or New Zealand unless Bidder and Target agree in writing that it is lawful and not unduly onerous or impracticable to issue HoldCo Shares to that Scheme Participant if the Scheme Participant so elects under the Scheme.

Funding SPV means each entity, trust, subsidiary or special purpose vehicle, the sole or predominant business purpose of which is for financing warehouse securitisations, term securitisation transactions or the acquisition of securities from term securitisation transactions for the purpose of satisfying the prescribed risk retention requirements of any relevant jurisdiction.

Government Official means, whether in Australia or elsewhere:

- (a) an officer, agent or employee of a government, government-owned enterprise (or any agency, department or instrumentality thereof), political party or public international organization;
- (b) a candidate for government or political office; or
- (c) an agent, officer, or employee of any entity owned by a government.

HoldCo means SME Capital Holdings Pty Ltd (ACN 628 947 544).

HoldCo Constitution has the meaning given in the Scheme.

Annexure E – Scheme Implementation Agreement

HoldCo Share means a fully paid ordinary share in the capital of HoldCo having the rights specified in the HoldCo Constitution and the Investment Deed.

Implementation Date means the 5th Business Day following the Record Date or such other date as is agreed by Bidder and Target.

Incoming Directors means at least 2 directors nominated by Bidder at least 2 Business Days before the Regulator's Draft is provided to ASIC.

Independent Expert means the independent expert approved by Bidder and appointed by Target under clause 5.2(c).

Independent Expert's Report means the report from the Independent Expert for inclusion in the Scheme Booklet, including any update or supplementary report, stating whether or not in the Independent Expert's opinion the Scheme is in the best interests of Target Shareholders.

A person is **Insolvent** if:

- (a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or
- (b) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to this document); or
- (d) an application or order has been made (and in the case of an application, it is not stayed, withdrawn or dismissed within 14 days), resolution passed or any other action taken, in each case in connection with that person, in respect of any of the things described in paragraphs (a), (b) or (c);
- (e) it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to this document reasonably deduces it is so subject); or
- (g) it is otherwise unable to pay its debts when they fall due; or
- (h) something having a substantially similar effect to (a) to (g) happens in connection with that person under the law of any jurisdiction.

Investment Deed has the meaning given in the Scheme.

Key Employees means any employee of a member of the Target Group who earns an annual salary of \$200,000 or more.

Listing Rules means the Listing Rules of ASX modified to the extent of any express written waiver by ASX.

Losses means all claims, demands, damages, losses, costs, expenses and liabilities.

LTI Plan means the long term incentive plan operated by the Target Group.

Management Shareholder means a Target Shareholder, other than a Foreign Shareholder, who is an employee (or an Affiliate of an employee) of a member of the Target Group and who earns an annual salary of \$200,000 or more.

Material Adverse Effect means a Specified Event which has resulted in, or is reasonably likely to result in (including as the result of a regulatory investigation or the loss of a financial services licence), either individually or when aggregated with any Specified Events of a similar kind or category:

- (a) a diminution in the consolidated net assets of the Target Group by at least \$20.6 million; or
- (b) PBITDA of the Target Group being reduced by at least \$7.2 million in the Target Group's financial years ending 30 June 2019 and/or 30 June 2020 (and for this purpose, the full financial year effect of any resulting PBITDA reduction must be applied in the relevant periods);

but does not include any matter, event or circumstance:

- (c) required to be done or procured by Target, or expressly permitted, under this document or the Scheme or the transactions contemplated by either;
- (d) which Bidder has previously approved in writing;
- (e) Fairly Disclosed in the Disclosure Materials;
- (f) that was Fairly Disclosed in documents that were publicly available from (and including) 13 July 2016 to the date of this document from public filings of Target with ASX;
- (g) relating to the costs and expenses incurred by Target associated with the Scheme, including all fees payable to external advisers of Target, to the extent such amounts or comparable estimates of such amounts are Fairly Disclosed in the Disclosure Materials; or
- (h) comprising or resulting from a change (including the implementation or introduction of a previously announced or made change) in any applicable law or governmental policy, any Accounting Standards, general economic and business or political conditions (including changes in foreign exchange rates and commodity prices) or financial markets, whether in Australia or elsewhere.

Material Contract means a contract or commitment requiring payments over the term of the contract in excess of \$1,000,000 or a group of related contracts with the same party or group of related parties or for a term of more than 1 year, but does not include debtor finance or specialised finance contracts entered into in the ordinary course of business with clients of the Target Group.

Maximum Share Number means 139,191,601 Target Shares or such higher number as is agreed in writing between Target and Bidder.

OIO means the Overseas Investment Office of New Zealand.

Outgoing Directors means Peter Clare, Andrew Love, Katrina Onishi and Patrick Elliott.

PBITDA means consolidated profit from ordinary continuing operating activities of the Target Group before interest, tax, depreciation and amortisation calculated in accordance with the accounting policies and principles applied by Target as at the date of this document.

Annexure E – Scheme Implementation Agreement

PPSA means the *Personal Property Securities Act 2009* (Cth).

Record Date means 5.00pm on the 5th Business Day following the Effective Date or such other date as Target and Bidder agree.

Register means the share register of Target and **Registry** has a corresponding meaning.

Regulator's Draft means the draft of the Scheme Booklet in a form acceptable to both parties which is provided to ASIC for approval pursuant to section 411(2) of the Corporations Act.

Regulatory Approval means any approval of a Regulatory Authority to the Scheme or any aspect of it which Bidder, acting reasonably, determines is necessary or desirable to implement the Scheme.

Regulatory Authority includes, in any jurisdiction:

- (a) a government or governmental, semi-governmental or judicial entity or authority;
- (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (c) any regulatory organisation established under statute,

and includes ASX, ACCC, ASIC, the Takeovers Panel, FIRB, APRA, AUSTRAC, OIO and FCA.

Regulatory Review Period means the period from the date on which the Regulator's Draft is submitted to ASIC to the date on which ASIC confirms that it does not intend to make any submissions at the Court hearing on the First Court Date or otherwise object to the Scheme.

Related Body Corporate has the meaning it has in the Corporations Act.

Relevant Interest has the meaning it has in sections 608 and 609 of the Corporations Act.

Representative means, in relation to a party:

- (a) a Related Body Corporate;
- (b) a director, officer or employee of the party or any of the party's Related Bodies Corporate; or
- (c) a financier or an adviser to the party or any of the party's Related Bodies Corporate, where an "adviser" means, in relation to an entity, financial adviser, corporate adviser, legal adviser, or technical or other expert adviser or consultant who provides advisory services in a professional capacity and who has been engaged by that entity in that capacity in connection with the Transaction.

Reverse Break Fee means \$6,100,000.

Sanctioned Person means at any time:

- (a) any person or entity listed on any Sanctions-related list of designated or blocked persons;

- (b) any person resident in, or entity organized under the laws of, a country or territory that is the subject of comprehensive Sanctions (including Cuba, Iran, North Korea, Sudan, Syria, and the Crimea region); or
- (c) any person or entity majority-owned or controlled by or acting on behalf of any of the foregoing.

Sanctions means those economic and financial sanctions and trade embargoes imposed, administered or enforced from time to time by:

- (a) the European Union and implemented by its member States;
- (b) the United Nations Security Council;
- (c) Her Majesty's Treasury of the United Kingdom; or
- (d) the U.S. government, including those administered by the U.S. Treasury, Office of Foreign Assets Control.

Scheme means the scheme of arrangement under part 5.1 of the Corporations Act under which all the Target Shares will be transferred to Bidder substantially in the form of Annexure B together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.

Scheme Booklet means, in respect of the Scheme, the information booklet to be approved by the Court and despatched to Target Shareholders which includes the Scheme, an explanatory statement complying with the requirements of the Corporations Act and notices of meeting and proxy forms.

Scheme Consideration has the meaning given in the Scheme.

Scheme Meetings means the meetings to be convened by the Court at which Target Shareholders will vote on the Scheme.

Scheme Participants means each person who is a Target Shareholder at the Record Date.

Scrip Scheme Consideration has the meaning given in the Scheme.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Specified Event means an event, occurrence or matter that:

- (a) occurs after the date of this document; or
- (b) occurs before the date of this document but is only announced or publicly disclosed after the date of this document.

Subsidiary, in relation to an entity, has the meaning given in Division 6 of Part 1.2 of the Corporations Act but so that:

- (a) an entity will also be deemed to be a "Subsidiary" of an entity if that entity is required by the accounting standards to be consolidated with that entity;
- (b) a trust or fund may be a "Subsidiary", for the purposes of which any units or other beneficial interests will be deemed shares; or
- (c) a corporation or trust or fund may be a "Subsidiary" of a trust or fund if it would have been a Subsidiary if that trust or fund were a corporation.

Annexure E – Scheme Implementation Agreement

Superior Proposal means a bona fide Competing Transaction which the Target Board, acting in good faith, and after taking advice from its legal and financial advisers, determines:

- (a) would, if completed substantially in accordance with its terms, result in an acquisition of an interest or Relevant Interest in 100% of the Target Shares;
- (b) is reasonably capable of being valued and completed within 5 months, taking into account all aspects of the Competing Transaction, including its conditions, the identity, reputation and financial condition of the person making the proposal, and legal, regulatory and financial matters; and
- (c) is of a higher financial value and would, if completed substantially in accordance with its terms, be more favourable to Target Shareholders than the Scheme viewed in aggregate, taking into account all terms and conditions of the Competing Transaction (including the consideration, conditionality, funding, certainty and timing).

Target Board means the board of directors of Target and **Target Board Member** means any director of Target comprising part of the Target Board.

Target Confidential Information means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on or after the date of this document relating to the business, technology or other affairs of Target.

Target Consolidated Tax Group means the Consolidated Group of which Target is the head company (as defined for the purposes of the Tax Act).

Target Constitution means the constitution of Target.

Target Group means Target and its Subsidiaries.

Target Indemnified Parties means Target, its directors, officers, employees, and Related Bodies Corporate and the directors, officers and employees of each of its Related Bodies Corporate and, except for the purposes of clause 7.2, its advisers and those of its Related Bodies Corporate.

Target Information means all information contained in the Scheme Booklet other than the Bidder Information and the Independent Expert's Report.

Target Option means an option over an unissued ordinary share in Target.

Target Prescribed Event means, except to the extent required or expressly permitted by this document or the Scheme, any of the following events:

- (a) **(conversion)** Target converts all or any of its shares into a larger or smaller number of shares;
- (b) **(reduction of share capital)** Target or another member of the Target Group resolves to reduce its share capital in any way or resolves to reclassify, combine, split or redeem or repurchase directly or indirectly any of its shares;
- (c) **(buy-back)** Target or another member of the Target Group:
 - (i) enters into a buy-back agreement; or

- (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) **(distribution)** Target makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);
- (e) **(issuing or granting shares or options)** any member of the Target Group:
 - (i) issues shares;
 - (ii) grants an option over its shares; or
 - (iii) agrees to make such an issue or grant such an option, in each case to a person outside the Target Group other than:
 - (iv) as Fairly Disclosed; or
 - (v) on vesting or exercise of an option or performance right existing as at the date of this document,

and provided the total number of Target Shares on both the Record Date and the Implementation Date does not exceed the Maximum Share Number;
- (f) **(securities or other instruments)** any member of the Target Group issues or agrees to issue securities or other instruments convertible into shares in each case to a person outside the Target Group other than as Fairly Disclosed and provided the total number of Target Shares on both the Record Date and the Implementation Date does not exceed the Maximum Share Number;
- (g) **(constitution)** Target adopts a new constitution or modifies or repeals its constitution or a provision of it;
- (h) **(disposals)** any member of the Target Group disposes, or agrees to dispose of the whole or a substantial part of its business or property;
- (i) **(Encumbrances)** other than in the ordinary course of business and consistent with past practice any member of the Target Group creates, or agrees to create, any Encumbrance over the whole or a substantial part of its business or property; or
- (g) **(Restraints)** a Member of the Target Group enters into a contract or commitment, which materially restrains a Member of the Target Group from competing with any person or conducting activities in any material market;
- (h) **(Related Party arrangements)** other than as Fairly Disclosed, a member of the Target Group enters into or resolves to enter into a transaction with any related party of Target (other than a related party which is a member of the Target Group) as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the Listing Rules;
- (i) **(De-consolidation)** a member of the Target Group does anything that would result in a de-consolidation of the Target Consolidated Tax Group, other than acquiring or disposing of a wholly owned subsidiary (subject always to the other provisions of this document);

Annexure E – Scheme Implementation Agreement

- (j) **(new term debt)** other than as Fairly Disclosed, a member of the Target Group incurs additional term indebtedness with any financier except as disclosed in the Disclosure Materials (and for the avoidance of doubt, such indebtedness does not restrict ordinary course of business draw-downs on existing warehouse, working capital, merchant or overdraft facilities); or
- (k) **(Insolvency)** Target or any of its Related Bodies Corporate becomes Insolvent,

provided that a Target Prescribed Event listed in items (a) to (k) will not occur where Target has first consulted with Bidder in relation to the event and Bidder has approved the proposed event in writing.

Target Representations and Warranties means the representations and warranties of Target set out in clauses 10.1 and 13.1.

Target Share means an ordinary fully paid share in the capital of Target.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Target Warehouse Facilities means each of the warehouse facilities used by any member of the Target Group for funding the origination and holding of loans and which the parties agree in writing are the “Target Warehouse Facilities” for the purpose of this document.

Tax Act means the *Income Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth), or both as the context requires.

Taxes means taxes, levies, imposts, charges and duties (including stamp and transaction duties) paid, payable or assessed as being payable by any authority together with any fines, penalties and interest in connection with them.

Timetable means the indicative timetable set out in Schedule 1 or such other indicative timetable as Bidder and Target may agree in writing or as may be required by ASX.

Transaction means:

- (a) the proposed acquisition of the Target Shares by Bidder through implementation of the Scheme in accordance with the terms of this document; and
- (b) all associated transactions and steps contemplated in this document.

Transaction Implementation Committee means a committee to be made up of:

- (a) the chief executive officer of Target and a Representative of Bidder;
- (b) a representative from each of the legal and financial advisers of each party; and
- (c) such other persons as the parties may agree from time to time.

Treasurer means the Treasurer of Australia.

Warehouse Facilities Report means the Project Delta Legal enquiries report into Financing Arrangements prepared by King & Wood Mallesons dated 21 September 2018.

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

- (a) the singular includes the plural and vice versa;
- (b) a reference to a document includes any agreement or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);
- (c) a reference to a document also includes any variation, replacement or novation of it;
- (d) the meaning of general words is not limited by specific examples introduced by “including”, “for example”, “such as” or similar expressions;
- (e) a reference to “**person**” includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;
- (f) a reference to a particular person includes the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (g) a reference to a time of day is a reference to Sydney, Australia time;
- (h) a reference to “**the date of this document**” is to be taken to be a reference to 24 September 2018;
- (i) a reference to dollars, \$ or A\$ is a reference to the currency of Australia;
- (j) a reference to “**law**” includes common law, principles of equity and legislation (including regulations);
- (k) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;
- (l) a reference to “**regulations**” includes instruments of a legislative character under legislation (such as regulations, rules, by-laws, ordinances and proclamations);
- (m) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually; and
- (n) a reference to a reference to any thing (including an amount) is a reference to the whole and each part of it.

1.3 Payment

Unless otherwise expressly provided in this document, where an amount is required to be paid to one party by another party, that amount must be paid in immediately available and irrevocable funds by electronic transfer to a bank account notified by the party receiving the funds in writing before the due date for payment (or in such other immediately payable funds as the parties agree) and without deduction, withholding or set-off.

Annexure E – Scheme Implementation Agreement

2 Agreement to propose and implement Scheme

2.1 Target to propose Scheme

Target agrees to propose the Scheme on and subject to the terms and conditions of this document.

2.2 Nomination of acquirer Subsidiary

At any time prior to the Business Day before the First Court Date, Bidder may nominate any wholly-owned Subsidiary of Bidder ("**Bidder Nominee**") to acquire Target Shares under the Scheme by providing a written notice which sets out the details of Bidder Nominee to Target. If Bidder decides to nominate Bidder Nominee to acquire Target Shares:

- (a) the parties must procure that the Target Shares transferred under the Scheme are transferred to Bidder Nominee rather than Bidder; and
- (b) Bidder must procure that Bidder Nominee complies with all of the relevant obligations of Bidder under this document and the Scheme.

2.3 Agreement to implement Scheme

The parties agree to implement the Scheme on the terms and conditions of this document.

3 Conditions Precedent

3.1 Conditions Precedent

Subject to this clause, the Scheme will not become Effective, and the obligations of Bidder under clause 4.3 are not binding, until each of the following Conditions Precedent are satisfied or waived to the extent and in the manner set out in this clause.

| Condition Precedent | | Party entitled to benefit | Party responsible |
|---------------------|---|---------------------------|-------------------|
| (a) | (FIRB approval) before 5.00pm on the Business Day before the Second Court Date either: <ul style="list-style-type: none">(i) the Treasurer (or the Treasurer's delegate) has provided a written no objection notification to the Scheme either without conditions or with conditions acceptable to Bidder; or(ii) following notice of the proposed Scheme having been given by Bidder to the Treasurer under the FIRB Act, the Treasurer has ceased to be empowered to make any order under Part 3 of the FIRB Act because the applicable time limit on making orders and decisions under the FIRB Act has expired. | Cannot be waived | Bidder |

| Condition Precedent | | Party entitled to benefit | Party responsible |
|---------------------|---|---------------------------|-------------------|
| (b) | (ASIC and ASX) before 8.00am on the Second Court Date, ASIC and ASX issue or provide all reliefs, waivers, confirmations, exemptions, consents or approvals, and have done all other acts, necessary, or which Target and Bidder agree are desirable, to implement the Scheme and such reliefs, waivers, confirmations, exemptions, consents, approvals or other acts (as the case may be) have not been withdrawn, suspended or revoked at 8.00am on the Second Court Date. | Both | Both |
| (c) | (Shareholder approval) Target Shareholders approve the Scheme by the requisite majorities required under section 411(4)(a)(ii) in accordance with the Corporations Act. | Cannot be waived | Target |
| (d) | (Court approval) the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act. | Cannot be waived | Target |
| (e) | (Regulatory Authority) before 8.00am on the Second Court Date, the approvals of each Regulatory Authority which Bidder and Target agree (acting reasonably) are necessary to implement the Scheme or conduct the Target Group's business on and from the Implementation lawfully and in a manner consistent with its conduct prior to the Implementation Date. | Both | Both |
| (f) | (Regulatory intervention) no Court or Regulatory Authority has issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Scheme and no such order, decree, ruling, other action or refusal is in effect as at 8.00am on the Second Court Date. | Both | Both |
| (g) | (Independent Expert) the Independent Expert issues a report which concludes that the Scheme is in the best interests of Scheme Participants before the date on which the Scheme Booklet is lodged with ASIC. | Target | Target |
| (h) | (No Target Prescribed Event) no Target Prescribed Event occurs between the date of this document and 8.00am on the Second Court Date. | Bidder | |
| (i) | (No Material Adverse Effect) no Material Adverse Effect occurs between the date of this document and 8.00am on the Second | Bidder | Target |

Annexure E – Scheme Implementation Agreement

| Condition Precedent | | Party entitled to benefit | Party responsible |
|---------------------|---|---------------------------|-------------------|
| | Court Date. | | |
| (j) | (Target Representations and Warranties) the Target Representations and Warranties are true and correct in all material respects at all times between the date of this document and as at 8.00am on the Second Court Date, except where expressed to be operative at another date. | Bidder | Target |
| (k) | (Employee Share Rights) before 8.00am on the Second Court Date the Company enters into arrangements on terms acceptable to Bidder that provide for the cancellation of all Employee Share Rights and any other securities convertible into Target Shares, with that cancellation subject only to the Court approving the Scheme and the Scheme becoming Effective. | Bidder | Target |
| (l) | (Enforcement) no material enforcement action is announced or commenced by a Regulatory Authority against, or involving, a Target Group entity, other than general industry consultation or enquiry which is not specifically targeting a Target Group entity, which relates to a material contravention or alleged material contravention of applicable laws or regulations by a Target Group entity and which has or is likely to have an adverse financial impact on the consolidated net assets of \$20.6 million or PBITDA of the Target Group of at least \$7.2 million (including for this purpose any fines and penalties) in the Target Group's financial years ending 30 June 2019 and/or 30 June 2020. | Bidder | Target |
| (m) | (Continuation of Target Warehouse Facilities) each relevant counterparty to each of the Target Warehouse Facilities consents to the change of control arising from the implementation of the Scheme and such consent is not withdrawn or revoked before 8:00am on the Second Court Date. | Bidder | Target |

3.2 Reasonable endeavours

Each of Target and Bidder agree to use reasonable endeavours to procure that:

- (a) each of the Conditions Precedent for which it is a party responsible (as noted in clause 3.1):
 - (i) is satisfied as soon as practicable after the date of this document; and

- (ii) continues to be satisfied at all times until the last time it is to be satisfied (as the case may require); and
- (b) there is no occurrence that would prevent the Condition Precedent for which it is a party responsible being satisfied.

3.3 Regulatory matters

Without limiting clause 3.2, each party:

- (a) **(applying for Regulatory Approvals)** must promptly apply for all relevant Regulatory Approvals and provide each other party with a copy of those applications (provided that any commercially sensitive information may be redacted from the copy provided);
- (b) **(Regulatory Approvals process)** must take all steps it is responsible for as part of the Regulatory Approval process, including responding to requests for information at the earliest practicable time;
- (c) **(representation)** has the right to be represented and make submissions at any meeting with any Regulatory Authority relating to a Regulatory Approval;
- (d) **(consultation)** must consult with the other party in advance in relation to all communications (whether written or oral, and whether direct or via a Representative) with any Regulatory Authority relating to any Regulatory Approval and:
 - (i) provide the other party with drafts of any material written communications to be sent to a Regulatory Authority and make any amendments as the other party reasonably requires; and
 - (ii) provide copies of any material written communications sent to or received from a Regulatory Authority to the other party promptly upon despatch or receipt (as the case may be),
 in each case to the extent it is reasonable to do so; and
- (e) **(Regulatory Authority)** must promptly offer to the relevant Regulatory Authority, and agree or accept, all undertakings, commitments and conditions necessary or appropriate in order to obtain the approval or consent (as the case may be) as soon as possible, unless it would be unreasonable to do so.

3.4 FIRB conditions

The parties acknowledge that the tax conditions set out in Parts A and B of Attachment A to Guidance Note 47 issued by FIRB from time to time are acceptable if imposed on the no objections notifications.

3.5 Waiver of Conditions Precedent

- (a) A Condition Precedent may only be waived in writing by the party or parties entitled to the benefit of that Condition Precedent as noted in clause 3.1 and will be effective only to the extent specifically set out in that waiver.
- (b) A party entitled to waive the breach or non-fulfilment of a Condition Precedent under this clause 3.5 may do so in its absolute discretion.

Annexure E – Scheme Implementation Agreement

- (c) If either Target or Bidder waives the breach or non-fulfilment of a Condition Precedent in accordance with this clause 3.5, then:
 - (i) subject to clause 3.5(c)(ii), that waiver precludes that party from suing the other for any breach of this document arising as a result of the breach or non-fulfilment of that Condition Precedent or arising from the same event which gave rise to the breach or non-fulfilment of that Condition Precedent; but
 - (ii) if the waiver of the Condition Precedent is itself conditional and the other party:
 - (A) accepts the condition, the terms of that condition apply notwithstanding any inconsistency with clause 3.5(c)(i); or
 - (B) does not accept the condition, the Condition Precedent has not been waived.
- (d) A waiver of a breach or non-fulfilment in respect of a Condition Precedent does not constitute:
 - (i) a waiver of a breach or non-fulfilment of any other Condition Precedent arising from the same event; or
 - (ii) a waiver of a breach or non-fulfilment of that Condition Precedent resulting from any other event.

3.6 Notices in relation to Conditions Precedent

Each party must:

- (a) **(notice of satisfaction)** promptly notify the other of satisfaction of a Condition Precedent and must keep the other informed of any material development of which it becomes aware that may lead to the breach or non-fulfilment of a Condition Precedent;
- (b) **(notice of failure)** immediately give written notice to the other of a breach or non-fulfilment of a Condition Precedent, or of any event which will prevent a Condition Precedent being satisfied; and
- (c) **(notice of waiver)** upon receipt of a notice given under clause 3.6(b), give written notice to the other party as soon as possible (and in any event before 5.00pm on the day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of any Condition Precedent resulting from the occurrence of that event, specifying the Condition Precedent in question.

3.7 Consultation on failure of Condition Precedent

If:

- (a) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with this document by the time or date specified in this document for the satisfaction of the Condition Precedent;
- (b) there is an act, failure to act or occurrence which will prevent a Condition Precedent being satisfied by the time or date specified in this document for the satisfaction of the Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived in accordance with this document); or

- (c) the Scheme has not become Effective by the End Date,
- the parties must consult in good faith with a view to determine whether:
- (d) the Scheme may proceed by way of alternative means or methods;
 - (e) to extend the relevant time for satisfaction of the Condition Precedent or to adjourn or change the date of an application to the Court; or
 - (f) to extend the End Date.

3.8 Failure to agree

- (a) If the parties are unable to reach agreement under clause 3.7 within 5 Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date):
 - (i) subject to clause 3.8(a)(ii) and 3.8(c), either party may terminate this document (and that termination will be in accordance with clause 14.1(f)(i)); or
 - (ii) if a Condition Precedent may be waived and exists for the benefit of one party only, that party only may waive that Condition Precedent or terminate this document (and that termination will be in accordance with clause 14.1(f)(ii)),

in each case before 8.00am on the Second Court Date.
- (b) A party will not be entitled to terminate this document under this clause 3.8 if the relevant Condition Precedent has not been satisfied (or agreement cannot be reached) as a result of a breach of this document by that party or a deliberate act or omission of that party.
- (c) If an investigation by a Regulatory Authority under the Condition Precedent in clause 3.1(l) is announced or commenced and Bidder wishes to terminate this document under this clause 3.8, Bidder must first obtain an opinion from senior counsel that, in the opinion of counsel, the investigation relates to a material contravention or alleged material contravention of applicable laws or regulations by a Target Group entity.

4 Outline of Scheme

4.1 Scheme

Target must propose a scheme of arrangement under which:

- (a) all of the Target Shares held by Scheme Participants at the Record Date will be transferred to Bidder; and
- (b) each Scheme Participant will be entitled to receive the Scheme Consideration.

4.2 Scheme Consideration

Subject to and in accordance with this document and the Scheme, each Scheme Participant is entitled to receive the Scheme Consideration in respect of each Target Share held by that Scheme Participant.

Annexure E – Scheme Implementation Agreement

4.3 Provision of Scheme Consideration

Subject to this document and the Scheme, Bidder undertakes to Target (in its own right and separately as trustee or nominee of each Scheme Participant) that, in consideration of the transfer to Bidder of each Target Share held by a Scheme Participant, Bidder will, on the Implementation Date:

- (a) accept that transfer; and
- (b) provide and will procure HoldCo to provide the relevant component of the Scheme Consideration in accordance with the Scheme.

Where the calculation of the Cash Scheme Consideration to be provided to a particular Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, the fractional entitlement will be rounded up (as applicable) to the nearest cent.

4.4 Issue of HoldCo Shares

- (a) Subject to the Scheme becoming Effective, Bidder must:
 - (i) issue (or procure the issue of) the HoldCo Shares to the Management Shareholders who have made valid Elections to receive the Scrip Scheme Consideration in accordance with the Scheme on terms that each HoldCo Share will rank equally in all respects with each other HoldCo Share and will have the rights set out in the HoldCo Constitution and the Investment Deed; and
 - (ii) ensure that on issue each HoldCo Share will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.
- (b) To facilitate the issue of HoldCo Shares to eligible Scheme Participants, Target must provide Bidder, or procure the provision to Bidder of, an extract of the Target register of members as at the Record Date (which must include the name, address and registered holding of each Management Shareholder as at the Record Date), within two Business Days of the Record Date. The details and information to be provided under this clause must be provided in such form as Bidder may reasonably require.

4.5 Election mechanism

- (a) Target must ensure that an Election Form is made available to the Management Shareholders.
- (b) The Election Form must include the relevant matters set out in the Scheme and must otherwise be in a form agreed by the parties in writing.

4.6 Employee incentives

- (a) Target must ensure that, by no later than the day after the Effective Date, there are no outstanding Employee Share Rights.
- (b) In order to comply with its obligation under clause 4.6(a), Target must take such action as may be necessary to cancel:
 - (i) for no consideration, any outstanding Employee Share Rights which it does not cause to vest; and

- (ii) any Employee Share Rights that are vested but which are not converted and/or exercised prior to the Scheme Meetings, for an amount of consideration which is equivalent to the net Scheme Consideration that the relevant holder would have received had the Employee Share Rights been validly exercised or converted by the relevant holder prior to the Scheme Meetings after deduction of any applicable exercise price that would otherwise have been payable to validly exercise or convert the Employee Share Rights.

4.7 No amendment to the Scheme without consent

Target must not consent to any modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of Bidder (not to be unreasonably withheld or delayed).

5 Implementation

5.1 General obligations

Target and Bidder must each:

- (a) use all reasonable endeavours and commit necessary resources (including management and corporate relations resources and the resources of external advisers); and
- (b) procure that its officers and advisers work in good faith and in a timely and co-operative fashion with the other party (including by attending meetings and by providing information),

to produce the Scheme Booklet and implement the Scheme as soon as reasonably practicable and in accordance with the Timetable.

5.2 Target's obligations

Target must take all reasonable steps to implement the Scheme on a basis consistent with this document and as soon as reasonably practicable, and in particular must:

- (a) **(announce directors' recommendation)** following execution of this document, announce, in a form agreed between Target and Bidder (on the basis of statements made to Target by each member of the Target Board) that:
 - (i) the Target Board intends to unanimously recommend to Scheme Participants that the Scheme be approved; and
 - (ii) each Target Board Member intends to vote, or procure the voting of, any Director Target Share in favour of the Scheme,

subject to:

- (iii) the Independent Expert concluding, and continuing to conclude, that the Scheme is in the best interests of Target Shareholders; and
- (iv) there being no Superior Proposal.

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- (b) **(preparation of Scheme Booklet)** subject to clause 5.2(e)(i), as soon as practicable after the date of this document, prepare and despatch the Scheme Booklet:
 - (i) in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 and the Listing Rules; and
 - (ii) which includes a statement by the Target Board:
 - (A) unanimously recommending that Target Shareholders vote in favour of the Scheme subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Target Shareholders and there being no Superior Proposal; and
 - (B) that each Target Board member intends to vote, or procure the voting of, any Director Target Shares in favour of the Scheme subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Target Shareholders and there being no Superior Proposal,

unless there has been a change or withdrawal of recommendation under clause 6.1;
- (c) **(Independent Expert)** promptly appoint the Independent Expert and provide any assistance and information reasonably requested by the Independent Expert to enable the Independent Expert to prepare its report for the Scheme Booklet as soon as practicable;
- (d) **(section 411(17)(b) statement)** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (e) **(consultation with Bidder)** consult with Bidder as to the content and presentation of:
 - (i) the Scheme Booklet, which includes:
 - (A) allowing Bidder a reasonable opportunity to review and make comments on successive drafts of the Scheme Booklet (accepting that any review of the Independent Expert's Report is limited to review for factual accuracy of those parts that include information relating to Bidder);
 - (B) taking any reasonable comments made by Bidder into account in good faith when producing a revised draft of the Scheme Booklet;
 - (C) providing to Bidder a revised draft of the Scheme Booklet within a reasonable time before the draft of the Scheme Booklet which is provided to ASIC for approval pursuant to section 411(2) of the Corporations Act is finalised; and
 - (D) obtaining Bidder's consent to the inclusion of the Bidder Information (including in respect of the form and context in which the Bidder Information appears in the Scheme Booklet); and

- (ii) documents required for the purposes of the Court hearings held for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act in relation to the Scheme (including originating processes, affidavits, submissions and draft minutes of Court orders), and consider in good faith any comments on, or suggested amendments to, those documents from Bidder prior to filing those documents with the Court;
- (f) **(lodgement of Regulator's Draft)**
 - (i) no later than 14 days before the First Court Date, provide an advanced draft of the Scheme Booklet ("**Regulator's Draft**") to ASIC for its review for the purposes of section 411(2) of the Corporations Act, and provide a copy of the Regulator's Draft to Bidder immediately thereafter; and
 - (ii) keep Bidder reasonably informed of any material issues raised by ASIC in relation to the Regulator's Draft and, where practical to do so, consult with Bidder in good faith prior to taking any steps or actions to address those material issues (provided that, where those issues relate to Bidder Information, Target must not take any steps to address them without Bidder's prior written consent, not to be unreasonably withheld);
- (g) **(supplementary disclosure)** if, after despatch of the Scheme Booklet, Target becomes aware:
 - (i) that information included in the Scheme Booklet is or has become misleading or deceptive in any material respect (whether by omission or otherwise); or
 - (ii) of information that is required to be disclosed to Target Shareholders under any applicable law but was not included in the Scheme Booklet,

promptly consult with Bidder in good faith as to the need for, and the form of, any supplementary disclosure to Target Shareholders, and make any disclosure that Target considers reasonably necessary in the circumstances, having regard to applicable laws and to ensure that there would be no breach of clause 13.1(g) if it applied as at the date that information arose;
- (h) **(Court application)** apply to the Court for an order under section 411(1) of the Corporations Act directing Target to convene the Scheme Meetings;
- (i) **(send Scheme Booklet)** send the Scheme Booklet to Target Shareholders as soon as practicable after the Court orders Target to convene the Scheme Meetings;
- (j) **(Scheme Meetings)** convene the Scheme Meetings to agree to the Scheme in accordance with any orders made by the Court pursuant to section 411(1) of the Corporations Act;
- (k) **(director's voting)** use its reasonable endeavours to procure that each member of the Target Board votes any Target Shares in which they have a Relevant Interest in favour of the Scheme;
- (l) **(Court approval)** subject to all Conditions Precedent, other than paragraph (d) in clause 3.1 being satisfied or waived in accordance with

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this document, apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act;

- (m) **(Conditions Precedent certificate)** at the hearing on the Second Court Date, provide to the Court (through its counsel):
 - (i) a certificate confirming (in respect of matters within Target's knowledge) whether or not the Conditions Precedent for which it is responsible, as noted in clause 3.1 (other than paragraph (d)), have been satisfied or waived in accordance with clause 3, a draft of which must be provided to Bidder by 5.00pm on the Business Day prior to the Second Court Date; and
 - (ii) any certificate provided to it by Bidder under clause 5.3(f);
- (n) **(lodge copy of Court order)** lodge with ASIC an office copy of the Court order approving the Scheme as approved by the Target Shareholders at the Scheme Meetings in accordance with section 411(10) of the Corporations Act on the day after that office copy is received (or any later date agreed in writing by Bidder);
- (o) **(Register)** close the Register as at the Record Date to determine the identity of Scheme Participants and their entitlements to Scheme Consideration;
- (p) **(instruments of transfer)** subject to Bidder satisfying its obligations under clause 4.3, on the Implementation Date:
 - (i) execute proper instruments of transfer and effect the transfer of Target Shares to Bidder in accordance with the Scheme; and
 - (ii) register all transfers of Target Shares held by Scheme Participants to Bidder;
- (q) **(Suspension of trading)** apply to ASX to suspend trading in Target Shares with effect from the close of trading on the Effective Date;
- (r) **(listing)** take all reasonable steps to maintain Target's listing on ASX, notwithstanding any suspension of the quotation of Target Shares, up to and including the Implementation Date, including making appropriate applications to ASX and ASIC; and
- (s) **(other steps)** do all other things necessary to give effect to the Scheme and the orders of the Court approving the Scheme.

5.3 Bidder's obligations

Bidder must take all reasonable steps to assist Target to implement the Scheme on a basis consistent with this document and as soon as reasonably practicable, and in particular must:

- (a) **(Bidder Information)**
 - (i) prepare and promptly provide to Target for inclusion in the Scheme Booklet the Bidder Information (in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 and the Listing Rules) and consent to the inclusion of that information in the Scheme Booklet;

- (ii) provide Target with drafts of the Bidder Information in a timely manner and, acting reasonably in good faith and subject to clause 5.5, take into account all reasonable comments from Target and its Representatives on those drafts;
- (b) **(confirmation of Bidder Information)** subject to Target complying with clauses 5.2(e), 5.2(f) and 5.5(a), promptly after Target requires that it does so, confirm in writing to Target that it consents to the inclusion of the Bidder Information in the Scheme Booklet, in the form and context in which the Bidder Information appears;
- (c) **(further Bidder Information)** promptly provide to Target any further or new Bidder Information as may arise after the Scheme Booklet has been sent to Target Shareholders and until the date of the Scheme Meetings as may be necessary to ensure that the Bidder Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission) and to ensure that there would be no breach of clause 13.4(g) if it applied as at the date on which such further or new Bidder Information arose;
- (d) **(Independent Expert information)** provide any assistance or information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report;
- (e) **(Deed Poll)** prior to the Scheme Booklet being sent, sign and deliver the Deed Poll and procure that HoldCo sign and deliver to Target the Deed Poll;
- (f) **(Conditions Precedent certificate)** before 8.00am on the Second Court Date, provide to Target for provision to the Court at the hearing on that date a certificate confirming (in respect of matters within Bidder's knowledge) whether or not the Conditions Precedent for which Bidder is responsible, as noted in clause 3.1 (other than paragraph (d)), have been satisfied or waived in accordance with clause 3, a draft of which must be provided to Target by 5.00pm on the Business Day prior to the Second Court Date;
- (g) **(Share transfer)** if the Scheme becomes Effective, accept a transfer of the Target Shares as contemplated by clause 4.3(a) and execute (or procure the execution of) proper instruments of transfer of the Target Shares to Bidder in accordance with the Scheme;
- (h) **(Scheme Consideration)** if the Scheme becomes Effective, provide or procure the provision of the Scheme Consideration in the manner and amount contemplated by clause 4.3(b) and the terms of the Scheme; and
- (i) **(other steps)** do all other things reasonably necessary to ensure that the Scheme is effected in accordance with all applicable laws, regulations and policy.

5.4 Scheme Booklet responsibility statement

The responsibility statement to appear in the Scheme Booklet, in a form to be agreed by the parties, will contain words to the effect of:

- (a) Target has prepared, and is responsible for, the content of the Scheme Booklet other than, to the maximum extent permitted by law, the Bidder Information, the Independent Expert's Report or any other report or letter issued to Target by a third party; and

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- (b) Bidder has prepared, and is responsible for, the Bidder Information in the Scheme Booklet (and no other part of the Scheme Booklet).

5.5 Disagreement on content of Scheme Booklet

If Bidder and Target disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle an agreed form of the Scheme Booklet. If complete agreement is not reached after reasonable consultation, then:

- (a) if the disagreement relates to the form or content of the Bidder Information contained in the Scheme Booklet, Target will make any amendments as Bidder reasonably requires; and
- (b) if the disagreement relates to the form or content of any other part of the Scheme Booklet, the Target Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet.

5.6 Verification

Each party must undertake appropriate verification processes for the information supplied by that party in the Scheme Booklet.

5.7 Conduct of Court proceeding

- (a) Target and Bidder are entitled to separate representation at all Court proceedings relating to the Scheme. This document does not give Target or Bidder any right or power to give undertakings to the Court for or on behalf of the other party without that party's written consent. Target and Bidder must give all undertakings to the Court in all Court proceedings which are reasonably required to obtain Court approval and confirmation of the Scheme as contemplated by this document.
- (b) Target and Bidder must defend, or cause to be defended, any lawsuit or other legal proceeding brought against it (or any of its Subsidiaries) challenging this document or the completion of the Scheme, unless Target has in good faith determined that such action is not in the best interests of Target Shareholders.

5.8 Appeal process

If the Court refuses to make orders convening any Scheme Meeting or approving the Scheme, Bidder and Target must appeal the Court's decision to the fullest extent possible except to the extent that:

- (a) the parties agree otherwise; or
- (b) an independent senior counsel of the New South Wales or Victorian bar advises that, in their opinion, an appeal would have no reasonable prospect of success before the End Date,

in which case either party may terminate this document in accordance with clause 14.1(f)(iii).

5.9 Transaction Implementation Committee

The parties must establish a Transaction Implementation Committee as soon as reasonably practical after the date of this document. The role of the Transaction Implementation Committee will be to act as a forum for consultation and planning by the parties to:

- (a) implement the Scheme; and
- (b) subject to clause 5.10, ensure the smooth transition of the management of the business and affairs of the Target Group to Bidder following the implementation of the Scheme.

5.10 No partnership or joint venture

Subject to this document, nothing in this clause requires either party to act at the direction of the other. The business of each party will continue to operate independently from the other until the Implementation Date. The parties agree that nothing in this document constitutes the relationship of a partnership or a joint venture between the parties.

6 Target Board recommendation

6.1 Reasonable endeavours

- (a) Target must use its reasonable endeavours to procure that none of its directors withdraws, or changes their recommendation in favour of the Scheme, unless:
 - (i) there is a Superior Proposal; or
 - (ii) the Independent Expert concludes that the Scheme is not in the best interests of Target Shareholders, or adversely changes its previously given opinion that the Scheme is in the best interests of Target Shareholders,

(Recommendation).

For the purpose of this clause, customary qualifications and explanations contained in the Scheme Booklet in relation to a recommendation to vote in favour of the Scheme to the effect that the recommendation is made in the absence of a Superior Proposal from a third party will not be regarded as a failure to make or withdraw the making of a recommendation in favour of the Scheme.

- (b) The parties acknowledge and agree that the Target Board members may, in their discretion, as part of the Recommendation:
 - (i) recommend only the Cash Scheme Consideration and make no recommendation in relation to the Scrip Scheme Consideration; and/or
 - (ii) make no recommendation at all in relation to whether Management Shareholders should make an Election or receive the Cash Scheme Consideration.

6.2 Withdrawal or change of recommendation

Without limiting clause 10, if a member of the Target Board proposes to withdraw or change its recommendation in accordance with clause 6.1:

- (a) Target must notify Bidder in writing immediately; and
- (b) the parties must consult in good faith for 2 Business Days after the date on which the notification in sub clause (a) is given to consider and determine whether the recommendation in place at the time can be

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maintained. That recommendation cannot be withdrawn or changed in accordance with clause 6.1 until the end of the consultation period.

7 Directors and employees

7.1 Appointment/retirement of Target directors

On the Implementation Date, but subject to the Scheme Consideration having been provided to the Scheme Participants and receipt by Target of signed consents to act, Target must use its reasonable endeavours to:

- (a) cause the appointment of each Incoming Director to the Target Board; and
- (b) procure that each of the Outgoing Directors retire from the Target Board and provide written notice to the effect that they have no claim outstanding for loss of office, remuneration or otherwise against Target,

in each case, in accordance with Target's constitution, the Corporations Act and the Listing Rules.

7.2 Directors' and officers' insurance

Subject to the Scheme becoming Effective and subject to the Corporations Act, Bidder undertakes in favour of Target and each other person who is a Target Indemnified Party that it will:

- (a) for a period of 7 years from the Implementation Date, ensure that the constitutions of Target and each other member of the Target Group are on materially no less favourable terms overall as are contained in those constitutions as at the date of this document that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a member of the Bidder Group; and
- (b) procure that Target and each other member of the Target Group complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time and without limiting the foregoing, ensure that the directors' and officers' run-off insurance cover for those directors and officers is maintained, subject to clause 7.3, for a period of 7 years from the retirement date of each director and officer.

7.3 Period of undertaking

The undertakings contained in clause 7.2 are given until the earlier of the end of the relevant period specified in that clause or the relevant member of the Target Group ceasing to be part of the Bidder Group.

7.4 Benefit of undertaking for Target Group

Target acknowledges that it receives and holds the benefit of clause 7.2 to the extent it relates to each director and officer of a member of the Target Group on behalf of each of them.

8 Conduct of business

8.1 Overview

From the date of this document up to and including the Implementation Date, Target must, and must cause each member of the Target Group to, conduct its business in the ordinary and usual course consistent with the business plans and budgets Fairly Disclosed and in substantially the same manner as previously conducted in the 12 month period prior to the date of this document and must regularly consult with Bidder on the manner of conduct of the business.

8.2 Specific obligations

Without limiting clause 8.1 and other than with the prior approval of Bidder (which approval must not be unreasonably withheld or delayed) or as required by this document, Target must, during the period contemplated by clause 8.1, use all reasonable endeavours to ensure that Target and each member of the Target Group:

- (a) **(business and assets)** preserve and maintain the value and condition of the businesses and assets of the Target Group;
- (b) **(officers and employees)** keeps available the services of its officers and employees;
- (c) **(relationships)** maintains and preserves its relationships with Regulatory Authorities, financial institution or group of financial institutions, bank or other provider of finance, including any agent or trustee acting on behalf of any of the foregoing, customers and others with whom it has business dealings; and
- (d) **(cash)** ensures that the cash in the Target is managed in the ordinary course and consistent with the practice of the Target as at the date of this document.

8.3 Prohibited actions

Other than with the prior approval of Bidder (which approval must not be unreasonably withheld or delayed) or as required by this document, Target must not, and must ensure that each member of the Target Group does not, during the period referred to in clause 8.1:

- (a) **(Material Contracts)** enter into or terminate a Material Contract;
- (b) **(Target Prescribed Events)** take any action that constitutes a Target Prescribed Event or that could reasonably be expected to result in a Target Prescribed Event;
- (c) **(financial arrangements)** amend in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this document;
- (d) **(information technology)** take any action in respect of its information technology systems which would have a material impact on those systems apart from any proposed action Fairly Disclosed in the Disclosure Material or which result in expenditure of less than \$1.5 million; or
- (e) **(acquisitions, disposals or tenders)**: other than in connection with debtor finance or specialised finance contracts entered into in the ordinary course of business with clients of the Target Group:

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- (i) acquire or dispose of;
- (ii) agree to acquire or dispose of; or
- (iii) offer, propose, announce a bid or tender for,
any business, assets, entity or undertaking the value of which exceeds \$5 million in respect of an acquisition or tender, and \$2.5 million in respect of a disposal;
- (k) **(employment arrangements)** other than in the ordinary course of business and consistent with past practice:
 - (i) increase the remuneration of (including with regard to superannuation benefits) or benefits provided to or pay any bonus (other than in accordance with an existing contract in place as at the date of this document and a copy of which has previously been provided to Bidder) or issue any incentive options to, or otherwise vary the employment arrangements with, any of its directors or Key Employees;
 - (ii) accelerate the rights of any of its directors or Key Employees to compensation or benefits of any kind (including under any Target executive or employee share plans), unless the proposed acceleration was Fairly Disclosed in the Disclosure Materials; or
 - (iii) pay any of its directors or Key Employees a termination or retention payment (otherwise than in accordance with an existing contract in place as at the date of this document and a copy of which has previously been provided to Bidder);
- (l) **(commitments and settlements)** other than in the ordinary course of business and consistent with past practice:
 - (i) terminate or amend in a material manner any contract material to the conduct of the Target Group's business or which involves revenue or expenditure of more than \$5 million over the term of the contract;
 - (ii) waive any material third party default where the financial impact of the waiver on the Target Group as a whole will be in excess of \$2.5 million (individually or in aggregate) other than in the ordinary course of the Target Group's lending business; or
 - (iii) accept as a settlement or compromise of a material claim, investigation or dispute:
 - (A) an obligation on Target or a Target Group Member to pay an amount or amounts in aggregate in excess of \$1 million; or
 - (B) (relating to an amount or amounts in aggregate in excess of \$5 million) less than 80% of the full compensation due to Target or a Target Group Member (unless based on advice of appropriate legal counsel and a determination by Target that it would be in the best interests of the Target Group Member to accept such lesser amount);
- (m) **(Joint ventures)** enter into or resolve to enter into a joint venture or partnership with any person;

- (n) **(agree)** agree to do any of the matters set out above.

8.4 Exceptions to conduct of business provisions

Nothing in this clause 8 restricts the ability of Target to take any action which:

- (a) is expressly required or permitted by this document, the Scheme, or otherwise required by law, the rules of a recognised stock exchange or, a Regulatory Authority;
- (b) has been Fairly Disclosed to Bidder prior to the execution of this document as being an action that Target will carry out between (and including) the date of this document and the Implementation Date; or
- (c) has been agreed to in writing by Bidder (such agreement not to be unreasonably withheld).

8.5 Access to people and Target Information

Between the date of this document and the Implementation Date, Target must:

- (a) as soon as reasonably practicable provide Bidder and its officers and advisers with any documents, records, and other information (subject to any existing confidentiality obligations owed to third parties, or applicable privacy laws) reasonably requested by them; and
- (b) provide Bidder and its officers and advisers with reasonable access to Target's officers and advisers which Bidder reasonably requires for the purposes of:
 - (i) understanding Target's financial position (including its cash flow and working capital position), trading performance and management control systems;
 - (ii) implementing the Scheme;
 - (iii) preparing for carrying on the business of Target following implementation of the Scheme; and
 - (iv) any other purpose which is agreed in writing between the parties,

provided in every case that such access is reasonably necessary to Bidder and does not place an unreasonable burden on the ability of Target to run its business.

8.6 No amendment or waiver of Equity Commitment Letter

As a continuing obligation Bidder will not, without Target's prior written consent, amend or permit the amendment of the Equity Commitment Letter nor waive any of its rights under the Equity Commitment Letter in any respect which will, or is reasonably likely to, prejudice Bidder's ability to provide the Scheme Consideration in accordance with this document, the Scheme and the Deed Poll.

8.7 Change of control

As soon as practicable after the date of this document, the parties must:

- (a) seek to identify any change of control or similar provisions in material contracts, joint venture documentation and leases to which a Target

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Group Member is a party which may be triggered by the implementation of the Scheme (“**Change of Control Requirements**”); and

- (b) unless otherwise agreed between Target and Bidder, use all reasonable endeavours to obtain any material consents required in accordance with the terms of any identified Change of Control Requirements as soon as practicable and in any event before the Second Court Date.

9 Releases

9.1 Release of Target and Target Indemnified Parties

Subject to the Corporations Act, Bidder releases its rights, and agrees with Target that it will not make a claim, against any Target Indemnified Party (other than Target and its Related Bodies Corporate) as at the date of this document and from time to time in connection with:

- (a) any breach of any representations and warranties of Target or any other member of Target Group in this document; or
- (b) any disclosures containing any statement which is false or misleading whether in content or by omission,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Target Indemnified Party has not acted in good faith or has engaged in wilful misconduct or fraud. Nothing in this clause 9.1 limits Bidder's rights to terminate this document under clause 14.1.

9.2 Benefit for Target Indemnified Parties

Target receives and holds the benefit of this clause 9 to the extent it relates to each Target Indemnified Party on behalf of each of them.

9.3 Release of Bidder and Bidder directors and officers

Subject to the Corporations Act, Target releases its rights, and agrees with Bidder that it will not make a claim, against any Bidder Indemnified Party (other than Bidder) as at the date of this document and from time to time in connection with:

- (a) any breach of any representations and warranties of Bidder or any other member of the Bidder Group in this document; or
- (b) any disclosure containing any statement which is false or misleading whether in content or by omission,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Bidder Indemnified Party has not acted in good faith or has engaged in wilful misconduct or fraud. Nothing in this clause 9.3 limits Target's rights to terminate this document under clause 14.1.

9.4 Benefit for Bidder Indemnified Parties

Bidder receives and holds the benefit of this clause 9 to the extent it relates to each Bidder Indemnified Party on behalf of each of them.

10 Exclusivity

10.1 No existing discussions

Target represents and warrants that, other than the discussions with Bidder in respect of the Scheme, it is not currently in negotiations or discussions in respect of any Competing Transaction with any person.

10.2 No-shop

During the Exclusivity Period, Target must ensure that neither it nor any of its Representatives directly or indirectly:

- (a) solicits, invites, encourages or initiates any enquiries, negotiations or discussions; or
- (b) communicates any intention to do any of these things,

with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction.

10.3 No-talk

Subject to clause 10.5, during the Exclusivity Period, Target must ensure that neither it nor any of its Representatives:

- (a) negotiates or enters into; or
- (b) participates in negotiations or discussions with any other person regarding,

a Competing Transaction or any agreement, understanding or arrangement that may be reasonably expected to lead to a Competing Transaction, even if that person's Competing Transaction was not directly or indirectly solicited, invited, encouraged or initiated by Target or any of its Representatives or the person has publicly announced the Competing Transaction.

10.4 Due diligence information

Subject to clauses 10.5 and 10.6, during the Exclusivity Period, Target must ensure that neither it nor any of its Representatives in relation to a Competing Transaction:

- (a) enables any other person other than Bidder to undertake due diligence investigations on any member of the Target Group or their businesses or operations; or
- (b) makes available to any other person, or permits any other person to receive, other than Bidder (in the course of due diligence investigations or otherwise) any non-public information relating to any member of the Target Group or their businesses or operations.

10.5 Exceptions

Clause 10.3 and clause 10.4 do not apply to the extent that they restrict Target or the Target Board from taking or refusing to take any action with respect to a genuine Competing Transaction (which was not solicited, invited, encouraged or initiated by Target in contravention of clause 10.2) provided that the Target Board has determined, in good faith and acting reasonably that:

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- (a) after consultation with its financial advisors, such a genuine Competing Transaction is a Superior Proposal; and
- (b) after receiving written legal advice from its external legal advisers (who must be reputable advisers experienced in transactions of this nature) that failing to respond to such Competing Transaction would constitute, or be reasonably likely to constitute, a breach of the Target Board's fiduciary or statutory obligations or a breach of the Target's statutory obligations.

10.6 Further exceptions

Nothing in this document prevents Target from:

- (a) continuing to make normal presentations to, and to respond to enquiries from, brokers, portfolio investors and analysts in the ordinary course in relation to the Scheme or its business generally; or
- (b) fulfilling its continuous disclosure requirements.

10.7 Notice of unsolicited approach

During the Exclusivity Period, Target must promptly inform Bidder if it or any of its Representatives:

- (a) receives any unsolicited approach with respect to any Competing Transaction and must disclose to Bidder all material details of the Competing Transaction, including details of the proposed bidder or acquirer (to the extent known by Target);
- (b) receives any request for information relating to Target or any of its Related Bodies Corporate or any of their businesses or operations or any request for access to the books or records of Target or any of its Related Bodies Corporate, which Target has reasonable grounds to suspect may relate to a current or future Competing Transaction; and
- (c) provides any information relating to Target or any of its Related Bodies Corporate or any of their businesses or operations to any person in connection with or for the purposes of a current or future Competing Transaction.

10.8 Matching right

Without limiting clauses 10.2 and 10.3, during the Exclusivity Period, Target:

- (a) must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a third party, Target or both proposes or propose to undertake or give effect to an actual, proposed or potential Competing Transaction; and
- (b) must use its best endeavours to procure that none of its directors change their recommendation in favour of the Scheme to publicly recommend an actual, proposed or potential Competing Transaction (or recommend against the Scheme),

unless:

- (c) the Target Board acting in good faith and in order to satisfy what the Target Board considers to be its statutory or fiduciary duties (having received written advice from its external legal advisers), determines that

the Competing Transaction would be or would be likely to be an actual, proposed or potential Superior Proposal;

- (d) Target has provided Bidder with the material terms and conditions of the actual, proposed or potential Competing Transaction, including price and the identity of the Third Party making the actual, proposed or potential Competing Transaction;
- (e) Target has given Bidder 5 Business Days after the date of the provision of the information referred to in clause 10.8(d) to provide a matching or superior proposal to the terms of the actual, proposed or potential Competing Transaction; and
- (f) Bidder has not submitted or proposed to Target a matching or superior proposal to the terms of the actual, proposed or potential Competing Transaction by the expiry of the 5 Business Day period referred to in clause 10.8(e).

Target acknowledges and agrees that each successive modification of any actual, proposed or potential Competing Transaction will constitute a new actual, proposed or potential Competing Transaction for the purposes of the requirements under clause 10.8 and accordingly Target must comply with clause 10.8(a) and clause 10.8(b) of this clause in respect of any new actual, proposed or potential Competing Transaction unless clause 10.8(c) to 10.8(f) (inclusive) apply.

10.9 Bidder counterproposal

If Bidder proposes to Target, or announces amendments to the Scheme or a new proposal that constitute a matching or superior proposal to the terms of the actual, proposed or potential Competing Transaction ("**Bidder Counterproposal**") by the expiry of the 5 Business Day period referred to in clause 10.8(e), Target must procure that the Target Board considers the Bidder Counterproposal and if the Target Board, acting reasonably and in good faith, determines that the Bidder Counterproposal would provide an equivalent or superior outcome for Target Shareholders as a whole compared with the Competing Transaction, taking into account all of the terms and conditions of the Bidder Counterproposal, then:

- (a) Target and Bidder must use their best endeavours to agree the amendments to this document and, if applicable, the Scheme and Deed Poll that are reasonably necessary to reflect the Bidder Counterproposal and to implement the Bidder Counterproposal, in each case as soon as reasonably practicable; and
- (b) Target must use its best endeavours to procure that each of the directors of Target continues to recommend the Scheme (as modified by the Bidder Counterproposal) to Target Shareholders.

10.10 Legal advice

Target acknowledges that it has received legal advice on this document and the operation of this clause.

Annexure E – Scheme Implementation Agreement

11 Break Fee

11.1 Background

This clause has been agreed in circumstances where:

- (a) Bidder and Target believe that the Scheme will provide significant benefits to Bidder, Target and their respective shareholders, and Bidder and Target acknowledge that, if they enter into this document and the Scheme is subsequently not implemented, Bidder will incur significant costs, including those set out in clause 11.5;
- (b) Bidder requested that provision be made for the Break Fee, without which Bidder would not have entered into this document;
- (c) both the Bidder Board and Target Board believe that it is appropriate for both parties to agree to the payment referred to in this clause to secure Bidder's participation in the Scheme; and
- (d) both parties have received legal advice on this document and the operation of this clause.

11.2 Payment by Target to Bidder

Subject to clause 11.3, Target agrees to pay the Break Fee to Bidder without withholding or set off if the Scheme does not proceed because:

- (a) **(Competing Transaction)** on or before the End Date, a Competing Transaction is announced and within 12 months of the End Date the third party who announced or made the Competing Transaction (and/or any of its Associates):
 - (i) completes a Competing Transaction; or
 - (ii) acquires a Relevant Interest in more than 50% of the Target Shares for which any defeating conditions have been satisfied or waived (and for the purposes of this paragraph (a)(ii), sections 609(6) and 609(7) of the Corporations Act will be disregarded when calculating such Relevant Interest in Target Shares);
- (b) **(change of recommendation)** any Target Director fails to recommend the Scheme or withdraws their recommendation, adversely changes or qualifies their recommendation or otherwise makes a public statement indicating that he or she no longer supports the Scheme, except where:
 - (i) the change of recommendation or statement is made after the Independent Expert concludes that in the opinion of the Independent Expert the Scheme is not in the best interests of Target Shareholders (other than where a Competing Transaction has been proposed or announced before the report is issued which the Independent Expert may reasonably regard to be on more favourable terms than the transaction contemplated by this document); or
 - (ii) Target is entitled to terminate this document in accordance with clause 14.1(c) and has given the appropriate termination notice to the Bidder; or
- (c) **(termination)** Bidder validly terminates this document in accordance with:

- (i) clause 14.1(c); or;
- (ii) clause 14.1(d).

11.3 No amount payable if Scheme becomes Effective

- (a) Notwithstanding the occurrence of any event in clause 11.2, if the Scheme becomes Effective:
 - (i) no amount is payable by Target under clause 11.2; and
 - (ii) if any amount has already been paid under clause 11.2 it must be refunded by Bidder.
- (b) Target is liable to pay the Break Fee once and in no circumstances can the Target be required to pay the Break Fee more than once.

11.4 Timing of payment

- (a) A demand by Bidder for payment of the Break Fee under clause 11.2 must:
 - (i) be in writing;
 - (ii) be made after the occurrence of the event in that clause giving rise to the right to payment;
 - (iii) state the circumstances which give rise to the demand; and
 - (iv) nominate an account in the name of Bidder into which Target must pay the Break Fee.
- (b) Target must pay the Break Fee to Bidder under clause 11.2 within 15 Business Days of receipt by Target of a valid demand for payment from Bidder under clause 11.4(a).

The demand may only be made after the occurrence of an event referred to in clause 11.2.

11.5 Nature of payment

The Break Fee is an amount to compensate Bidder for:

- (a) advisory costs;
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses;
- (d) the distraction of Bidder's management from conducting Bidder's business as usual caused by pursuing the Scheme;
- (e) reasonable opportunity costs incurred by Bidder in pursuing the Scheme or in not pursuing alternative acquisitions or strategic initiatives which Bidder could have developed to further its business and objectives; and
- (f) damage to Bidder's reputation associated with a failed transaction and the implications of that damage to Bidder's business.

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The parties agree that the costs incurred are of a nature that they cannot be accurately quantified and that a genuine pre-estimate of the costs would equal or exceed the amount payable under clause 11.2.

11.6 Target's limitation of liability

- (a) Notwithstanding any other provision of this document but subject to clauses 11.6(b), 4.2 and 11.7 the maximum liability of Target to Bidder under or in connection with this document including in respect of any breach of this document will be the Break Fee.
- (b) Clause 11.6(a) does not apply to a breach of clauses 10.2, 10.8 or 10.9 by Target in reliance of which Bidder has validly terminated this document in accordance with clause 14.1(c).

11.7 Compliance with law

If it is finally determined following the exhaustion of all reasonable avenues of appeal to the Takeovers Panel or a Court that all or any part of the amount payable under clause 11.2:

- (a) is unlawful or would if performed be, unlawful;
- (b) involves a breach of the duties of the Target Board; or
- (c) constitutes unacceptable circumstances within the meaning of the Corporations Act,

then Target's obligation to pay the applicable amount or part of the amount payable under clause 11.2 does not apply and if Bidder has received any such part of the payment due under clause 11.2 it must refund it within 5 Business Days of such final determination.

The parties must not make or cause or permit to be made any application to a Court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in this clause 11.6.

12 Reverse Break Fee

12.1 Background

This clause 12 has been agreed in circumstances where:

- (a) Bidder and Target believe that the Scheme will provide significant benefits to Bidder, Target and their respective shareholders, and Bidder and Target acknowledge that, if they enter into this document and the Scheme is subsequently not implemented, Target and Target Shareholders will incur significant costs including those set out in clause 12.5;
- (b) Target requested that provision be made for the payment of the Reverse Break Fee, without which Target would not have entered into this document;
- (c) both the Bidder Board and Target Board believe that it is appropriate for both parties to agree to the payment referred to in this clause to secure Target's participation in the Scheme; and

- (d) both parties have received legal advice on this document and the operation of this clause.

12.2 Payment by Bidder to Target

Bidder agrees to pay the Reverse Break Fee to Target without withholding or set off if the Scheme does not proceed because Target validly terminates this document in accordance with clause 14.1(c).

12.3 No amount payable if Scheme becomes Effective

Notwithstanding the occurrence of any event in clause 12.2, if the Scheme becomes Effective:

- (a) no amount is payable by Bidder under clause 12.2; and
- (b) if any amount has already been paid under clause 12.2 it must be refunded by Target.

12.4 Timing of payment

- (a) A demand by Target for payment of the Reverse Break Fee under clause 12.2 must:
 - (i) be in writing;
 - (ii) be made after the occurrence of the event in that clause giving rise to the right to payment;
 - (iii) state the circumstances which give rise to the demand; and
 - (iv) nominate an account in the name of Target into which Bidder must pay the Reverse Break Fee.
- (b) Bidder must pay the Reverse Break Fee to Target within 15 Business Days of receipt by Bidder of a valid demand for payment from Target under clause 12.4(a).

The demand may only be made after the occurrence of an event referred to in clause 12.2.

12.5 Nature of payment

The Reverse Break Fee is an amount to compensate Target for:

- (a) advisory costs;
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses;
- (d) the distraction of Target's management from conducting Target's business as usual caused by pursuing the Scheme;
- (e) reasonable opportunity costs incurred by Target in pursuing the Scheme or in not pursuing strategic initiatives which Target could have developed to further its business and objectives; and
- (f) damage to Target's reputation associated with a failed transaction and the implications of that damage to Target's business.

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The parties agree that the costs incurred are of a nature that they cannot be accurately quantified and that a genuine pre-estimate of the costs would equal or exceed the amount payable under clause 12.2.

12.6 Bidder's limitation of liability

Notwithstanding any other provision of this document:

- (a) the maximum liability of Bidder to Target under or in connection with this document including in respect of any breach of this document will be the Reverse Break Fee; and
- (b) the payment by Bidder of the Reverse Break Fee represents the sole and absolute liability of Bidder under or in connection with this document and no further damages, fees, expenses or reimbursements of any kind will payable by Bidder under or in connection with this document.

13 Representations and warranties

13.1 Target's representations and warranties

Target represents and warrants to Bidder (on its own behalf and separately as trustee or nominee for each of the Bidder directors) that each of the following statements is true and correct in all material respects as at the date of this document and as at 5.00pm on the Business Day immediately prior to the Second Court Date:

- (a) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation;
- (b) **(power)** it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;
- (c) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document do not and will not conflict with:
 - (i) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded; or
 - (ii) any law binding on or applicable to it or its assets;
- (d) **(authorisations)** other than Change of Control Authorisations, it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;
- (e) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms;
- (f) **(reliance)** the Target Information contained in the Scheme Booklet will be included in good faith and on the understanding that Bidder and its directors will rely on that information for the purposes of considering and approving the Bidder Information in the Scheme Booklet before it is despatched, approving the entry into the Deed Poll and implementing the Scheme;
- (g) **(Target Information)** the Target Information provided in accordance with this document and included in the Scheme Booklet as at the date of the Scheme Booklet will not contain any material statement which is

misleading or deceptive in any material respect, nor contain any material omission having regard to applicable disclosure requirements and will comply in all material respects with the requirements of the Corporations Act, the Listing Rules and all relevant regulatory guides and other guidelines and requirements of ASIC;

- (h) **(Disclosure)** Target has provided to Bidder all material information actually known to it (having made reasonable enquiries) as at the date of this document regarding matters affecting or relating to it, which is not already in the public domain;
- (i) **(continuous disclosure)** Target is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the carve-out in Listing Rule 3.1A to withhold any information from disclosure (other than the transaction contemplated by this document);
- (j) **(complete and accurate)** the Disclosure Materials were prepared, compiled and made available to Bidder and its Representatives in good faith with reasonable care, and as far as the Target is aware, all the Disclosure Material is complete and accurate and is not misleading or deceptive, whether by way of omission or otherwise;
- (k) **(reasonable assumptions)** to the extent the Target Information includes forward looking statements, those forward looking statements are based on assumptions which Target believes, as at the date the information was provided and continues to believe, to be reasonable;
- (l) **(compliance)** so far the Target is aware, the Target Group has complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over it and has all material licenses, permits and authorisations necessary for it to conduct its business as it has been conducted in the 12 months prior to the date of this document;
- (m) **(opinions)** any statement of opinion or belief contained in the Target Information is honestly held and there are reasonable grounds for holding the opinion or belief;
- (n) **(provision of information to Independent Expert)** all information provided by or on behalf of Target to the Independent Expert to enable the Independent Expert's Report to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's Report;
- (o) **(no default)** so far as the Target is aware and other than as Fairly Disclosed in the Disclosure Materials, neither Target nor any of its Subsidiaries is in default under any document, agreement or instrument binding on it or its assets nor has anything occurred which is or would with the giving of notice or lapse of time constitute an event of default, prepayment event or similar event, or give another party a termination right or right to accelerate any right or obligation, under any such document or agreement with such an effect;
- (p) **(securities)** Target's issued securities as at the date of this document are 139,191,601 Target Shares and 4,243,619 Target Options, and other than as Fairly Disclosed in the Disclosure Materials it has not issued or agreed to issue any other securities or instruments which are still outstanding and which may convert into Target Shares; and

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- (q) **(no Encumbrances)** there are no Encumbrances over all or any of its assets or revenues other than as Fairly Disclosed in the Disclosure Materials;
- (r) **(Insolvency event)** no material member of the Target Group is Insolvent;
- (s) **(Target Prescribed Events)** other than as Fairly Disclosed in the Disclosure Materials:
 - (i) no Target Prescribed Event has occurred between 1 July 2018 and the date of this document; and
 - (ii) no event has occurred between 1 July 2018 and the date of this document that would have been a breach of clause 8.3 had this document been entered into on 1 July 2018;
- (t) **(regulatory approvals)** so far as the Target is aware, as at the date of this document, no regulatory approval is required to be obtained by Target in order for it to execute, deliver and perform this document, other than those approvals set out in clause 3.1, and so far as the Target is aware, as at the date of this document no regulatory action of any nature has been taken that would prevent or restrict its ability to fulfil its obligations under this document; and
- (u) **(Anti-Corruption Laws and Sanctions)**
 - (i) So far as the Target is aware, neither the Target Group, nor any of its respective shareholders, officers, directors or employees, nor any agent or other third party representative acting on behalf of the Target Group, has made, offered, promised, or authorised, directly or indirectly, any payment for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, or any bribe, rebate, payoff, influence payment, kickback or other similar unlawful payment to any person for the purpose of either gaining an improper business advantage or encouraging the recipient to violate the policies of his or her employer or to breach an obligation of good faith or loyalty, in each case in violation of any applicable Anti-Corruption Laws.
 - (ii) So far as the Target is aware, neither the Target Group nor any of its officers, directors, employees, agents, or representatives acting on its behalf is a Sanctioned Person or has transacted business with a Sanctioned Person or in violation of Sanctions.
 - (iii) None of Target Group's principals, owners, officers, directors, or agents is currently a Government Official.
 - (iv) The Target Group has implemented and adhered to policies and procedures designed to prevent conduct that would constitute a violation of applicable Anti-Corruption Laws, Sanctions, and Anti-Money Laundering Laws, and have maintained complete and accurate books and records, including records of payments to any agents, consultants, representatives, third parties and Government Officials.
 - (v) During the 5 years prior to the date of this document, the Target Group has not received from any governmental authority or any other person any notice, inquiry, or internal or external allegation, or made any voluntary or involuntary disclosure to a

governmental authority related to any actual or potential violation of applicable Anti-Corruption Laws, Anti-Money Laundering Laws, or Sanctions. No proceeding by or before any government authority involving Target with respect to Anti-Corruption Laws, Anti-Money Laundering Laws, or Sanctions is pending, or to the knowledge of Target, is threatened.

- (vi) Target will not use any proceeds transferred pursuant to this Transaction in violation of any Anti-Corruption Laws, nor will it directly or knowingly indirectly transfer such proceeds to or for the benefit of any Sanctioned Person or in violation of Sanctions.

13.2 Target's indemnity

Target indemnifies the Bidder and its directors against all Losses incurred directly or indirectly as a result of any breach of the representations and warranties in clause 13.1.

13.3 Qualifications on Target Representations and Warranties

The representations and warranties in clause 13.1 and the indemnity in clause 13.2 are each subject to matters that:

- (a) have been Fairly Disclosed in the Disclosure Materials;
- (b) have been Fairly Disclosed by Target in an announcement made to Target on ASX; or
- (c) as at the date of this document are within the actual knowledge of Bidder or any of the Bidder's Representatives designated in the Disclosure Letter for the purpose of this paragraph (c).

Any representations and warranties in clause 13.1 that are given subject to Target's awareness, knowledge or belief are given by reference to the actual awareness, knowledge or belief of the Target Representatives referred to in clause 13.6(a) after having made reasonable enquiries.

13.4 Bidder's representations and warranties

Bidder represents and warrants to Target (on its own behalf and separately as trustee or nominee for each of the Target directors) that each of the following statements is true and correct in all material respects as at the date of this document and as at 5.00pm on the Business Day immediately prior to the Second Court Date:

- (a) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation;
- (b) **(power)** it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;
- (c) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document do not and will not conflict with:
 - (i) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded; or
 - (ii) any law binding on or applicable to it or its assets;

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- (d) **(authorisations)** it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;
- (e) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms;
- (f) **(reliance)** the Bidder Information provided to Target for inclusion in the Scheme Booklet will be provided in good faith and on the understanding that Target and its directors will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the Scheme in accordance with the Corporations Act;
- (g) **(Bidder Information)** the Bidder Information provided in accordance with this document and included in the Scheme Booklet, as at the date of the Scheme Booklet, will not contain any material statement which is misleading or deceptive nor contain any material omission having regard to applicable disclosure requirements and will comply in all material respects with the requirements of the Corporations Act, the Listing Rules and all relevant regulatory guides and other guidelines and requirements of ASIC;
- (h) **(reasonable assumptions)** to the extent the Bidder Information includes forward looking statements, those forward looking statements are based on assumptions which Bidder believes, as at the date the information was provided and continues to believe, to be reasonable;
- (i) **(opinions)** any statement of opinion or belief contained in the Bidder Information is honestly held and there are reasonable grounds for holding the opinion or belief;
- (j) **(compliance)** so far as the Bidder is aware, the Bidder Group has complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over it and has all material licenses, permits and franchises necessary for it to conduct its businesses as presently being conducted;
- (k) **(no dealing with Target Shareholders)** neither it nor, so far as the Bidder is aware, any of its Associates has any agreement, arrangement or understanding with any Target Shareholder under which that Target Shareholder (or an Associate of that Target Shareholder) would be entitled to receive consideration for their Target Shares different from the Scheme Consideration or under which the Target Shareholder agrees to vote in favour of the Scheme or against any Competing Transaction;
- (l) **(reasonable basis)** it has a reasonable basis to expect that it will, by the Implementation Date, have available to it sufficient cash amounts (whether from internal cash reserves or external funding arrangements, including equity and debt financing or a combination of both) to satisfy Bidder's obligations to provide or procure the provision of the Scheme Consideration in accordance with its obligations under this document, the Scheme and the Deed Poll;
- (m) **(provision of information to Independent Expert)** all information provided by or on behalf of Bidder to the Independent Expert to enable the Independent Expert's Report to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's Report;

- (n) **(Equity Commitment Letter)** Bidder has given to Target a true, correct and complete copy of the Equity Commitment Letter;
- (o) **(due execution and enforceability of the Equity Commitment Letter)** the Equity Commitment Letter has been duly executed by Concordant Investments Pte Ltd and constitutes a legally binding obligation of Concordant Investments Pte Ltd enforceable in accordance with its terms;
- (p) **(No termination of Commitment Letters)** the Equity Commitment Letter has not been terminated by Concordant Investments Pte Ltd;
- (q) **(regulatory approval)** so far as the Bidder is aware, no regulatory approval is required to be obtained by the Bidder in order for it to execute, deliver and perform this document, other than those approvals set out in clause 3.1, and so far as the Bidder is aware, as at the date of this document no regulatory action of any nature has been taken that would prevent or restrict the Bidder's ability to fulfil its obligations under this document; and
- (r) **(Insolvency event)** so far as the Bidder is aware, no member of the Bidder Group is Insolvent.

13.5 Bidder's indemnity

Bidder indemnifies the Target and its Subsidiaries and each director of Target and its Subsidiaries against all Losses incurred directly or indirectly as a result of any breach of the representations and warranties in clause 13.4.

13.6 Qualifications on Bidder Representations and Warranties

- (a) The Bidder Representations and Warranties in clause 13.4 and the indemnity in clause 13.5 are each subject to matters that as at the date of this document are within the actual knowledge of the Target Representatives designated in the Disclosure Letter for the purposes of this clause 13.6(a).
- (b) Any Bidder Representations and Warranties that are given subject to Bidder's awareness, knowledge or belief are given by reference to the actual awareness, knowledge or belief of the Bidder Representatives who have been directly involved in the assessment and/or negotiation of the transactions contemplated by this document after having made reasonable enquiries.

14 Termination

14.1 Termination events

This document may be terminated:

- (a) **(End Date)** by either party, if the Scheme has not become Effective on or before the End Date;
- (b) **(lack of support)** by Bidder at any time prior to 8.00am on the Second Court Date if any member of the Target Board changes its recommendation to the Scheme Participants that they vote in favour of the resolution to approve the Scheme, including any adverse modification to its recommendation, or otherwise makes a public

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statement indicating that it no longer supports the Scheme (excluding a statement that no action should be taken by Target Shareholders pending the assessment of a Competing Proposal by the Target Board);

- (c) **(material breach)** by either Bidder or Target at any time prior to 8.00am on the Second Court Date, if the other is in material breach of a term of this document (including any material breach of any representation and warranty contained in clause 12), taken in the context of the Scheme as a whole, provided that Bidder or Target (as the case may be) has given notice to the other setting out the relevant circumstances and the relevant circumstances continue to exist 10 Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given;
- (d) **(competing interest)** by Bidder, if a person (other than Bidder or its Associates) and/or any of its Associates has a Relevant Interest in more than 20% of the Target Shares. For the purposes of this paragraph (d), sections 609(6) and 609(7) of the Corporations Act will be disregarded when calculating the Relevant Interest in Target Shares;
- (e) **(Competing Transaction)** by Target if the Target Board determines that a Competing Transaction that was not solicited, invited, encouraged or initiated in breach of clause 10.2 is a Superior Proposal;
- (f) **(consultation or appeal failure)** in accordance with and pursuant to:
 - (i) clause 3.8(a)(i);
 - (ii) clause 3.8(a)(ii); or
 - (iii) clause 5.8; or
- (g) **(agreement)** if agreed to in writing by Bidder and Target.

14.2 Termination

Where a party has a right to terminate this document, that right for all purposes will be validly exercised if the party delivers a notice in writing to the other party stating that it terminates this document.

14.3 Effect of Termination

If this document is terminated by either party, or if this document otherwise terminates in accordance with its terms, then in either case all further obligations of the parties under this document, other than the obligations set out in this clause 14.3 and in clauses 11 and 15 to 21 (inclusive) will immediately cease to be of further force and effect without further liability of any party to the other, provided that nothing in this clause releases any party from liability for any pre-termination breach of this document.

14.4 Damages

In addition to the right of termination under clause 14.1 where there is no appropriate remedy for the breach in this document (other than termination), the non-defaulting party is entitled to damages for Losses suffered by it and expenses incurred by it as a result of the breach of the terms of this document. This clause 14.4 does not prejudice the Target's right to obtain an order for specific performance in respect of Bidder's obligation in clause 8.6 or for performance of Bidder's obligations under this document.

15 Public announcements

15.1 Public announcement of Scheme

Immediately after signing this document, Target and Bidder must issue a joint public announcement of the proposed Scheme in the form contained in Annexure A.

15.2 Required disclosure

Where a party is required by any applicable law or any Listing Rule to make any announcement or make any disclosure in connection with the Scheme, it must use all reasonable endeavours, to the extent possible, to consult with the other party prior to making the relevant disclosure.

15.3 Other announcements

Subject to clauses 15.1 and 15.2, no party may make any public announcement or disclosure in connection with the Scheme (including disclosure to a Regulatory Authority) other than in a form approved by each party (acting reasonably). Each party will use all reasonable endeavours to provide such approval as soon as practicable. Nothing in this clause requires the giving of prior notice or the taking of any action if doing so would lead to a party breaching an applicable law or the Listing Rules.

16 Confidential Information

16.1 Disclosure of Bidder Confidential Information

Each party acknowledges and agrees that it continues to be bound by the Confidentiality Agreement in respect of all information received by it from the other party on, before or after the date of this document.

17 Notices and other communications

17.1 Form

Unless this document expressly states otherwise, all notices, demands, certificates, consents, approvals, waivers and other communications in connection with this document must be in writing and signed by the sender (if an individual) or an Authorised Officer of the sender.

All communications (other than email communications) must also be marked for the attention of the person referred to in the Details (or, if the recipient has notified otherwise, then marked for attention in the way last notified).

Email communications must state the first and last name of the sender and are taken to be signed by the named sender.

17.2 Delivery

Communications must be:

- (a) left at the address referred to in the Details;
- (b) sent by international courier to the address referred to in the Details; or
- (c) sent by email to the address referred to in the Details.

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If the intended recipient has notified changed contact details, then communications must be sent to the changed contact details.

17.3 When effective

Communications take effect from the time they are received or taken to be received under clause 17.4 (whichever happens first) unless a later time is specified in the communication.

17.4 When taken to be received

Communications are taken to be received:

- (a) if sent by international courier, on delivery of the communication;
- (b) if sent by email:
 - (i) when the sender receives an automated message confirming delivery; or
 - (ii) 4 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that delivery failed,

whichever happens first.

17.5 Receipt outside business hours

Despite anything else in this clause 17, if communications are received or taken to be received under clause 17.4 after 5.00pm on a Business Day or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day. For the purposes of this clause, the place in the definition of Business Day is taken to be the place specified in the Details as the address of the recipient and the time of receipt is the time in that place.

18 GST

18.1 Definitions and interpretation

For the purposes of this clause:

- (a) “**GST Act**” means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth);
- (b) a term which has a defined meaning in the GST Act has the same meaning when used in this clause, unless the contrary intention appears; and
- (c) each periodic or progressive component of a supply to which section 156-5(1) of the GST Act applies will be treated as if it were a separate supply.

18.2 GST exclusive

Unless this document expressly states otherwise, all consideration to be provided under this document is exclusive of GST.

18.3 Payment of GST

- (a) If GST is payable, or notionally payable, on a supply in connection with this document, the party providing the consideration for the supply agrees to pay to the supplier an additional amount equal to the amount of GST payable on that supply ("**GST Amount**").
- (b) Subject to the prior receipt of a tax invoice, the GST Amount is payable at the same time as the GST-exclusive consideration for the supply, or the first part of the GST-exclusive consideration for the supply (as the case may be), is payable or is to be provided.
- (c) This clause does not apply to the extent that the consideration for the supply is expressly stated to include GST or the supply is subject to a reverse-charge.

18.4 Adjustment events

If an adjustment event arises for a supply made in connection with this document, the GST Amount must be recalculated to reflect that adjustment. The supplier or the recipient (as the case may be) agrees to make any payments necessary to reflect the adjustment and the supplier agrees to issue an adjustment note.

18.5 Reimbursements

Any payment, indemnity, reimbursement or similar obligation that is required to be made in connection with this document which is calculated by reference to an amount paid by another party must be reduced by the amount of any input tax credits which the other party (or the representative member of any GST group of which the other party is a member) is entitled. If the reduced payment is consideration for a taxable supply, clause 18.3 will apply to the reduced payment.

19 Costs

19.1 Costs

The parties agree to pay their own Costs in connection with the preparation, negotiation, execution and completion of this document, except for amounts covered by clause 19.2.

19.2 Stamp duty and registration fees

Bidder:

- (a) agrees to pay or reimburse all stamp duty, registration fees and similar taxes payable or assessed as being payable in connection with this document or any other transaction contemplated by this document (including any fees, fines, penalties and interest in connection with any of those amounts); and
- (b) indemnifies Target against, and agrees to reimburse and compensate it for, any liability in respect of stamp duty under clause 19.2(a).

Bidder agrees to pay amounts due to Target under this clause within 3 Business Days of demand from Bidder.

However, Bidder need not pay, reimburse or indemnify against any fees, fines, penalties or interest to the extent they have been imposed because of Target's delay.

Annexure E – Scheme Implementation Agreement

20 General

20.1 Variation of original Scheme Implementation Agreement

The parties acknowledge and agree that with effect from the date on which this document is executed by the parties to it, the scheme implementation agreement dated 24 September 2018 between the parties is amended such that it is replaced by the terms and conditions set out in this document.

20.2 Variation and waiver

A provision of this document, or right, power or remedy created under it, may not be varied or waived except in writing signed by the party to be bound.

20.3 Consents, approvals or waivers

By giving any approval, consent or waiver a party does not give any representation or warranty as to any circumstance in connection with the subject matter of the consent, approval or waiver.

20.4 Discretion in exercising rights

Unless this document expressly states otherwise, a party may exercise a right, power or remedy or give or refuse its consent, approval or a waiver in connection with this document in its absolute discretion (including by imposing conditions).

20.5 Partial exercising of rights

Unless this document expressly states otherwise, if a party does not exercise a right, power or remedy in connection with this document fully or at a given time, they may still exercise it later.

20.6 Conflict of interest

Each party may exercise their rights, powers and remedies in connection with this document even if this involves a conflict of duty or they have a personal interest in their exercise.

20.7 Remedies cumulative

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

20.8 Indemnities and reimbursement obligations

Any indemnity, reimbursement or similar obligation in this document.

- (a) is a continuing obligation despite the satisfaction of any payment or other obligation in connection with this document, any settlement or any other thing;
- (b) is independent of any other obligations under this document; and
- (c) continues after this document, or any obligation arising under it, ends.

It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity in connection with this document.

20.9 Inconsistent law

To the extent the law permits, this document prevails to the extent it is inconsistent with any law.

20.10 Supervening law

Any present or future law which operates to vary the obligations of a party in connection with this document with the result that another party's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by law.

20.11 Counterparts

This document may consist of a number of copies, each signed by one or more parties to it. If so, the signed copies are treated as making up a single document.

20.12 Entire agreement

This document constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

20.13 Further steps

Each party agrees to do anything (such as obtaining consents, signing and producing documents, producing receipts and getting documents completed and signed), which the other party asks and considers necessary to:

- (a) bind the party and any other person intended to be bound under this document; or
- (b) show whether the party is complying with this document.

20.14 No liability for loss

Unless this document expressly states otherwise, a party is not liable for any loss, liability or costs arising in connection with the exercise or attempted exercise of, failure to exercise, or delay in exercising, a right, power or remedy in connection with this document.

20.15 Severability

If the whole or any part of a provision of this document is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this document has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause has no effect if the severance alters the basic nature of this document or is contrary to public policy.

20.16 Rules of construction

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this document or any part of it.

20.17 Assignment

- (a) Except as provided in clause 20.17(b), a party may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied without the consent of the other party.

Annexure E – Scheme Implementation Agreement

- (b) Notwithstanding any other provision of this document:
 - (i) the benefit of this document may be assigned by Bidder to a Related Body Corporate of Bidder or any Affiliate of the Bidder; and
 - (ii) Bidder's rights under this document may otherwise be encumbered by way of security (whether by charge, mortgage or otherwise) for the benefit of each financial institution or group of financial institutions, bank or other provider of finance, including any agent or trustee acting on behalf of any of the foregoing, with which Bidder or any of its Affiliates, or, following the Implementation Date, any Target Group Member, incurs financial indebtedness from time to time, and any such security may be enforced or released.

20.18 Enforceability

For the purpose of this document:

- (a) Target is taken to be acting as trustee for the benefit of all Target Indemnified Parties; and
- (b) Bidder is taken to be acting as trustee for the benefit of all Bidder Indemnified Parties,

and all of those persons are to this extent taken to be parties to this document.

20.19 No representation or reliance

Each party acknowledges that:

- (a) no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this document, except for representations or inducements expressly set out in this document;
- (b) it does not enter into this document in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this document; and
- (c) clauses 20.19(a) and 20.19(b) above do not prejudice any rights a party may have in relation to information which had been filed by the other party with ASIC or ASX.

21 Governing law

21.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

21.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address for service of notices under clause 17.2.

Schedule 1 Timetable (clause 5.1)

| Event | Date |
|--|-----------------------------|
| Lodge Scheme Booklet with ASIC | Thursday, 11 October 2018 |
| Application in respect of the Court hearing to be held on the First Court Date, filed with the Court, served on ASIC | Thursday, 11 October 2018 |
| First Court Date | Friday, 26 October 2018 |
| Despatch of Scheme Booklet | Thursday, 1 November 2018 |
| Scheme Meetings held | Friday, 30 November 2018 |
| Second Court Date | Friday, 7 December 2018 |
| Lodge Court order with ASIC (Effective Date) | Friday, 7 December 2018 |
| Record Date | Wednesday, 12 December 2018 |
| Implementation Date | Tuesday, 18 December 2018 |

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

Signing page

EXECUTED as a deed

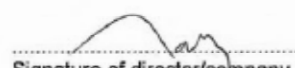
DATED: 24 October 2018

EXECUTED by SME CAPITAL
INVESTMENTS III PTY LTD in
accordance with section 127(1) of the
Corporations Act 2001 (Cth) by
authority of its directors:



Signature of director

ROBIN ONG ENG JIN
Name of director (block letters)



Signature of director/company
secretary

KOK YEW TANG
Name of director/company secretary
(block letters)

Scheme Implementation Agreement

EXECUTED by **SCOTTISH PACIFIC
GROUP LIMITED** in accordance with
section 127(1) of the Corporations Act
2001 (Cth) by authority of its directors:



Signature of director



Name of director (block letters)



Signature of director/company
secretary



Name of director/company secretary
(block letters)

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

Annexure A Public announcement

ASX ANNOUNCEMENT

24 September 2018

Scottish Pacific Group Limited enters into Scheme Implementation Agreement with Affinity Equity Partners

Key highlights:

- SME Capital Investments III Pty Ltd (ACN 628 950 514) (**Bidder**) (an entity owned by funds managed or advised by Affinity Equity Partners Limited and/or its affiliates (**Affinity Equity Partners**)) proposes to acquire 100% of Scottish Pacific Group Limited (**SCO**) by way of scheme of arrangement (**Scheme**).
- Subject to the Scheme becoming effective, SCO shareholders will receive \$4.40 per share in cash¹ (**Scheme Consideration**), representing a premium of 27.8% to SCO's 1-month volume weighted average price (**VWAP**) to 19 September 2018 of \$3.44.
- SCO's Directors unanimously recommend that SCO shareholders vote in favour of the Scheme, subject to no superior proposal emerging and the Independent Expert concluding that the Scheme is in the best interests of SCO shareholders.
- A Scheme Booklet containing detailed information of the Scheme proposal, including an Independent Expert Report, is expected to be issued to SCO shareholders by early November 2018.
- The transaction is subject to customary conditions which must be satisfied before the Scheme is implemented. SCO shareholders do not need to take any actions at the present time.

Overview of the Scheme

SCO announces that it has entered into a binding Scheme Implementation Agreement (**SIA**) with the Bidder (an entity owned by funds managed or advised by Affinity Equity Partners) under which it is proposed that the Bidder will acquire 100% of the share capital of SCO by way of the Scheme.

Established in 2004, Affinity Equity Partners is one of the largest independent Asian private equity firms and recently closed a funding round that raised ~US\$6bn in December 2017.

Under the terms of the Scheme, SCO shareholders will be entitled to receive \$4.40 per share in cash, subject to all applicable conditions being satisfied or waived and the Scheme being implemented.

The Scheme Consideration of \$4.40 per share represents:

- 17.6% premium to SCO's closing share price of \$3.74 on 19 September 2018, being the last closing price prior to entering into trading halt and announcing the Scheme;
- 23.8% premium to the 1-week VWAP of \$3.55 (up to and including 19 September);
- 27.8% premium to the 1-month VWAP of \$3.44 (up to and including 19 September);
- 34.4% premium to the 3-month VWAP of \$3.27 (up to and including 19 September);
- 37.5% premium to the 12-month VWAP of \$3.20; and
- 18.7x price to FY18 NPATA on a fully diluted basis².

¹ Members of SCO's Leadership Team may make an election under the Scheme, to receive \$2.20 in cash plus 0.5 shares in SME Capital Holdings Pty Ltd (ACN 628 947 544) in respect of each SCO share they or their associates hold (in lieu of the \$4.40 cash per share Scheme Consideration). SME Capital Holdings Pty Ltd indirectly wholly owns the Bidder. SCO's Leadership Team includes Peter Langham (Chief Executive Officer and Executive Director), David Rose (Chief Financial Officer and Company Secretary), Craig Michie (Head of Specialised Finance), Wayne Smith (Head of Debtor Finance), Steven Davies (Chief Operating Officer) and Ben Cutler (Chief Customer Officer).

² Calculated on a fully diluted basis which includes 139,191,601 ordinary shares outstanding and assumed conversion of 4,095,480 unlisted options.

Annexure E – Scheme Implementation Agreement



The Scheme Consideration of \$4.40 per share implies a fully diluted market capitalisation for SCO of approximately \$630 million.

SCO's Board of Directors unanimously recommend the Scheme

The Directors of SCO unanimously recommend that SCO shareholders vote in favour of the Scheme, subject to no superior proposal emerging and the Independent Expert concluding that the Scheme is in the best interests of SCO shareholders. Subject to those same qualifications, each Director of SCO that holds or controls SCO shares intends to vote in favour of the Scheme.

Each member of SCO's Leadership Team³, who in aggregate hold approximately 3.2% of SCO's shares as at the date of this announcement, has confirmed that they intend to vote all SCO shares held or controlled by them in favour of the Scheme, subject to the above qualifications.

SCO's Chairman, Patrick Elliott, commented "Affinity Equity Partners' proposal represents a significant premium to SCO's recent share price, and entitles all SCO shareholders to receive up to 100%⁴ of the Scheme Consideration in cash which provides value certainty for shareholders. We believe the proposal is consistent with the Board's efforts to maximise shareholder value."

Transaction structure

The transaction will be implemented by a scheme of arrangement under Australian law.

The Scheme is subject to certain conditions that must be satisfied or waived for the Scheme to be implemented. These include:

- any ASIC or ASX reliefs, waivers, confirmations, exemptions, consents or approvals;
- approval of any relevant Regulatory Authority;
- no Court or Regulatory Authority take steps to restrain or prevent the Scheme;
- the Independent Expert issuing a report which concludes that the Scheme is in the best interest of Scheme Participants;
- no enforcement action initiated by any Regulatory Authority; and
- obtaining consents to the change of control from each relevant counterparty to SCO's Warehouse Facilities.

The Scheme is also subject to a number of customary conditions, including SCO shareholder approval by the requisite majorities, Court approval, no material adverse effect and approval from regulators, including the Foreign Investment Review Board (**FIRB**) and certain other regulatory bodies (including in New Zealand). Unless every condition to the Scheme is satisfied or waived, the Scheme will not be implemented. In this regard, SCO shareholders should note that there is no assurance that the requisite consents and approvals will be obtained.

The Bidder has advised SCO that it expects the cash component of the Scheme Consideration to be fully funded by financing arranged or provided by certain funds managed or advised by Affinity Equity Partners. The Scheme is not conditional on the Bidder securing the funds.

The SIA contains customary exclusivity provisions including no shop restrictions, a notification obligation, no talk restrictions and a matching right (the latter two of which are subject to SCO Directors' fiduciary obligations). The SIA also details circumstances under which a break fee may be payable to the Bidder and a reverse break fee may be payable to SCO.

A full copy of the executed SIA with its attachments accompanies this announcement.

³ SCO's Leadership Team includes: Peter Langham (Chief Executive Officer and Executive Director), David Rose (Chief Financial Officer and Company Secretary), Craig Michie (Head of Specialised Finance), Wayne Smith (Head of Debtor Finance), Steven Davies (Chief Operating Officer) and Ben Cutler (Chief Customer Officer).

⁴ Members of SCO's Leadership Team may elect to receive \$2.20 in cash plus 0.5 shares in SME Capital Holdings Pty Ltd in lieu of the \$4.40 cash per share Scheme Consideration.



Indicative timetable and next steps

SCO shareholders do not need to take any action at the present time.

A Scheme Booklet containing, among other things, further information relating to the Scheme, reasons for the Directors' unanimous recommendation, details of the Scheme meeting and the Independent Expert's report, is expected to be sent to SCO shareholders in early November 2018.

SCO shareholders will be given the opportunity to vote on the Scheme at a meeting that is expected to be held on 30 November 2018. Subject to SCO shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late December 2018.

These dates are indicative and subject to change.

SCO is being advised by Citigroup as financial adviser and by PwC as legal and tax adviser.

About Affinity Equity Partners

Affinity Equity Partners is one of the largest independent private equity firms in the Asia Pacific region, advising and managing approximately US\$14bn of funds and assets. Affinity Equity Partners recently completed raising US\$6bn in new capital for Affinity Asia Pacific Fund V. Affinity Equity Partners was established as a standalone entity in 2004, following the separation of its operations from UBS AG. Since inception, Affinity Equity Partners has completed 41 transactions in ten countries with an aggregate transaction value of US\$15 billion.

ENDS

Investor / media enquiries:

Dragi Ristevski

Citigroup

+61 403 034 399

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

Annexure B Scheme of Arrangement

Scheme of Arrangement

Dated

Scottish Pacific Group Limited (ACN 164 013 110) ("**Target**")

Scheme Participants

Annexure E – Scheme Implementation Agreement

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Scheme of Arrangement

Details

Parties

| | | |
|----------------------------|---|--|
| Target | Name | Scottish Pacific Group Limited |
| | ACN | 164 013 110 |
| | Formed in | Victoria |
| | Address | Level 5, 20 Bond Street, Sydney, NSW 2000 |
| | Email | Patrick.Elliott@nextcapital.com.au LanghamP@scottishpacific.com |
| | Attention | Patrick Elliott and Peter Langham |
| Scheme Participants | Each person registered as a holder of fully paid ordinary shares in Target as at the Record Date. | |
| Governing law | New South Wales | |

Annexure E – Scheme Implementation Agreement

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

Affiliate means in respect of a person (**Primary Person**), a person:

- (a) Controlled directly or indirectly by the Primary Person;
- (b) Controlling directly or indirectly the Primary Person; or
- (c) directly or indirectly under the common Control of the Primary Person and another person or persons.

APRA means the Australia Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the market operated by it, as the context requires.

AUSTRAC means the Australian Transaction Reports and Analysis Centre.

Bidder means SME Capital Investments III Pty Ltd (ACN 628 950 514).

Business Day means a business day as defined in the Listing Rules.

Cash Scheme Consideration means an amount equal to the aggregate amount of the cash component of the Scheme Consideration payable to Scheme Participants under clauses 6.3(a) and 6.3(b)(ii) of this Scheme.

CHESS means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd.

Control means, with respect to any person (other than an individual), the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise, and includes the following:

- (a) direct or indirect ownership of more than 50% of the voting rights of such person; or
- (b) the right to appoint the majority of the members of the board of directors of such person (or similar governing body) or to manage on a discretionary basis the assets of such person,

and, for the avoidance of doubt, and, solely for the purposes of the definition of Affiliate:

- (c) a general partner is deemed to Control a limited partnership;

- (d) a fund, client or account advised or managed, directly or indirectly, by a person will also be deemed to be Controlled by such person; and
- (e) a fund, client or account will be deemed to be an Affiliate of the Primary Person if the fund, client or account is advised or managed, directly or indirectly, by a person Controlling directly or indirectly the Primary Person or a person directly or indirectly under the common Control of the Primary Person and another person or persons.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed in writing by Bidder and Target.

Deed Poll means the deed poll dated _____ 2018 executed by Bidder and HoldCo substantially in the form of Annexure C of the Scheme Implementation Agreement or as otherwise agreed by Bidder and Target under which Bidder covenants in favour of each Scheme Participant to perform (or procure performance of) its obligations under this Scheme.

Details means the section of this agreement headed "Details".

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Election means an election by a Management Shareholder to receive their Scheme Consideration partly in the form of HoldCo Shares and partly in the form of cash in accordance with clause 6.3(b).

Election Date means 5.00pm on the date that is three clear Business Days before the date of the applicable Scheme Meeting or such other date as is agreed in writing between Bidder and Target.

Election Form means a form issued by Target for the purposes of a Management Shareholder making an Election.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or (2) of the *Personal Property Securities Act 2009* (Cth), or any agreement to create any of them or allow them to exist.

End Date means 15 March 2019 or such other date as is agreed by Bidder and Target.

FCA means the Financial Conduct Authority of the United Kingdom.

FIRB means the Foreign Investment Review Board.

Foreign Shareholder means a Scheme Participant whose address in the Register as at the Record Date is a place outside Australia or New Zealand unless Bidder and Target agree in writing that it is lawful and not unduly onerous or impracticable to issue HoldCo Shares to that Scheme Participant if the Scheme Participant so elects under the Scheme.

HoldCo means SME Capital Holdings Pty Ltd (ACN 628 947 544).

Annexure E – Scheme Implementation Agreement

HoldCo Constitution means the constitution adopted, or to be adopted, by HoldCo substantially in the form attached to the Election Form.

HoldCo Share means a fully paid ordinary share in the capital of HoldCo issued on the terms of issue set out in the Investment Deed.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to Target.

Implementation Date means the fifth Business Day following the Record Date or such other date as is agreed by Bidder and Target.

Investment Deed means the investment deed in relation to HoldCo substantially in the form attached to the Election Form.

Listing Rules means the Listing Rules of the ASX.

Management Shareholder means any Target Shareholder, other than a Foreign Shareholder, who is an employee (or an Affiliate of an employee) of a member of the Target Group and who earns an annual salary of \$200,000 or more.

OIO means the Overseas Investment Office of New Zealand.

Original Scheme Implementation Agreement means the scheme implementation agreement dated 24 September 2018 between Target and Bidder, which has been amended and replaced by the Scheme Implementation Agreement.

Record Date means 5.00pm on the fifth Business Day following the Effective Date or such other date as Target and Bidder agree.

Register means the register of members of Target maintained by or on behalf of Target in accordance with section 168(1) of the Corporations Act.

Registered Address means, in relation to a Target Shareholder, the address shown in the Register.

Regulatory Authority includes, in any jurisdiction:

- (a) a government or governmental, semi-governmental or judicial entity or authority;
- (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (c) any regulatory organisation established under statute,

and includes ASX, ACCC, ASIC, the Takeovers Panel, FIRB, APRA, AUSTRAC, OIO and FCA.

Scheme means this scheme of arrangement between Target and Scheme Participants under which all of the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act as described in clause 6, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Target and Bidder in accordance with clause 3.1(c).

Scheme Consideration means the consideration to be provided or procured by Bidder for the transfer of the Scheme Shares held by a Scheme Participant to Bidder determined in accordance with clause 6.3.

Scheme Implementation Agreement means the scheme implementation agreement dated _____ 2018 between Target and Bidder, which amended and replaced the Original Scheme Implementation Agreement, under which, amongst other things, Target has agreed to propose this Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to this Scheme.

Scheme Meeting means any meeting of Target Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Target Shareholders will vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Participant means each person who is a Target Shareholder as at the Record Date.

Scheme Share means a Target Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued on or before the Record Date.

Scrip Scheme Consideration means the Scheme Consideration to be provided to Scheme Participants in the form of the issue of HoldCo Shares under clause 6.3(b)(i) of this Scheme.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act in favour of the Bidder as transferee, which may be a master transfer of all Scheme Shares.

Target Board means the board of directors of Target.

Target Group means Target and its Subsidiaries.

Target Option means an option over an unissued ordinary share in Target.

Target Registry means Link Market Service Limited (ACN 083 214 537).

Target Share means a fully paid ordinary share in the capital of Target.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Transaction means:

- (a) the proposed acquisition of the Target Shares by Bidder through implementation of the Scheme in accordance with the terms of this document; and
- (b) all associated transactions and steps contemplated in this document.

Trust Account means the trust account operated by or on behalf of Target to hold the Cash Scheme Consideration on trust for the purpose of paying the Cash Scheme Consideration to the Scheme Participants in accordance with clause 6.4.

Annexure E – Scheme Implementation Agreement

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

- (a) the singular includes the plural and vice versa;
- (b) a reference to a document includes any agreement or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);
- (c) a reference to a document also includes any variation, replacement or novation of it;
- (d) the meaning of general words is not limited by specific examples introduced by “including”, “for example”, “such as” or similar expressions;
- (e) a reference to “**person**” includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;
- (f) a reference to a particular person includes the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (g) a reference to a time of day is a reference to Sydney, Australia time;
- (h) a reference to dollars, \$ or A\$ is a reference to the currency of Australia;
- (i) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;
- (j) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually;
- (k) a reference to any thing (including an amount) is a reference to the whole and each part of it;
- (l) a period of time starting from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (m) if a party must do something under this document on or by a given day and it is done after 5.00pm on that day, it is taken to be done on the next day; and
- (n) if the day on which a party must do something under this document is not a Business Day, the party must do it on the next Business Day.

2 Preliminary

2.1 Target

Target is:

- (a) a public company limited by shares;
- (b) incorporated in Australia and registered in Victoria; and

- (c) admitted to the official list of the ASX and Target Shares are officially quoted on the stock market conducted by ASX.

As at 24 October 2018, Target's issued securities are:

- (a) Target Shares: 139,191,601; and
- (b) Target Options: 4,243,619.

2.2 Bidder

Bidder is:

- (a) a proprietary company limited by shares; and
- (b) incorporated in Australia and registered in New South Wales.

2.3 If Scheme becomes Effective

If this Scheme becomes Effective:

- (a) in consideration of the transfer of each Scheme Share to Bidder, Target will provide or procure the provision of the Scheme Consideration to each Scheme Participant in accordance with the terms of this Scheme and the Deed Poll;
- (b) all Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Bidder on the Implementation Date; and
- (c) Target will enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

2.4 Scheme Implementation Agreement

Target and Bidder have agreed by executing the Scheme Implementation Agreement to implement the terms of this Scheme.

2.5 Deed Poll

Bidder and HoldCo have executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) obligations attributed to them under this Scheme, including to provide the Scheme Consideration.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8.00am on the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms;
- (b) all of the conditions precedent in clause 3.1 of the Scheme Implementation Agreement (other than the condition precedent in clause

Annexure E – Scheme Implementation Agreement

3.1(d) of the Scheme Implementation Agreement) having been satisfied or (other than the conditions precedent in clauses 3.1(a) and 3.1(c) of the Scheme Implementation Agreement) waived in accordance with the terms of the Scheme Implementation Agreement;

- (c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Target and Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and
- (d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clauses 5 and 6

The satisfaction of each condition of clause 3.1 is a condition precedent to the operation of clause 5 and 6.

3.3 Certificate in relation to conditions precedent

Target and Bidder must provide to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 (other than the conditions precedent in clause 3.1(c) and clause 3.1(d)) have been satisfied or waived as at 8.00am on the Second Court Date.

The certificate referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 (other than the conditions precedent in clause 3.1(c) and 3.1(d)) have been satisfied or waived as at 8.00am on the Second Court Date.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Scheme Implementation Agreement or the Deed Poll is terminated in accordance with their terms.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 (other than the condition precedent in clause 3.1(d)) are satisfied, Target must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no

later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Bidder and Target agree in writing.

5.2 Transfer and registration of Target Shares

Subject to the Scheme becoming Effective, the following will occur on the Implementation Date in the order set out below:

- (a) Bidder confirming in writing to Target that:
 - (i) the Cash Scheme Consideration has been provided in accordance with clause 6.4(a); and
 - (ii) the Scrip Scheme Consideration has been provided in accordance with clause 6.4(e);
- (b) payment by Target of the Cash Scheme Consideration in the manner contemplated by clause 6.4(b);
- (c) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to Bidder without the need for any further act by any Scheme Participant (other than acts performed by Target as attorney and agent for Scheme Participants under clause 8 of this Scheme) by:
 - (i) Target delivering to Bidder a duly completed and executed Share Scheme Transfer, executed on behalf of the Scheme Participants by Target as their attorney and agent; and
 - (ii) Bidder duly executing the Share Scheme Transfer and delivering it to Target for registration; and
- (d) as soon as practicable after receipt of the duly executed Share Scheme Transfer in accordance with clause 5.2(c)(ii), Target must enter, or procure the entry of, the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

5.3 Title and rights in Scheme Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6, on and from the Implementation Date, Bidder will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by Target of Bidder in the Register as the holder of the Scheme Shares.

5.4 Scheme Participants' agreements

Under this Scheme, each Scheme Participant agrees:

- (a) to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme; and
- (b) to the extent they are, or are to be, issued with HoldCo Shares as a component of the Scheme Consideration to which they are entitled, to become a shareholder of HoldCo and to be bound by the HoldCo Constitution and the Investment Deed.

Annexure E – Scheme Implementation Agreement

5.5 Warranty by Scheme Participants

Each Scheme Participant warrants to Bidder and is deemed to have authorised Target to warrant to Bidder as agent and attorney for the Scheme Participant by virtue of this clause 5.5, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Bidder under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Bidder under the Scheme.

5.6 Transfer free of Encumbrances

To the extent permitted by law, all Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred to Bidder under this Scheme will, at the date of the transfer of them to Bidder, vest in Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

5.7 Appointment of Bidder as sole proxy

Immediately upon provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.4, on and from the Implementation Date until Target registers Bidder as the holder of all of the Scheme Shares in the Register, each Scheme Participant:

- (a) is deemed to have irrevocably appointed Target as attorney and agent (and directs Target in such capacity) to appoint Bidder and each of its directors, officers and any secretary or agent nominated by Bidder from time to time (jointly and each of them individually) as its sole proxy, and where applicable corporate representative, to:
 - (i) attend shareholders' meetings of Target, exercise the votes attaching to Scheme Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.7(a)); and
 - (ii) execute and deliver any deed or document required by Target, Bidder or HoldCo that causes each Scheme Participant entitled to HoldCo Shares to be bound by the Investment Deed and the HoldCo Constitution;
- (b) must take all other actions in the capacity of the registered holder of Scheme Shares as Bidder reasonably directs; and
- (c) acknowledges and agrees that in exercising the powers referred to in clause 5.7(a), Bidder and any director, officer, secretary or agent nominated under clause 5.7(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

Target undertakes in favour of each Scheme Participant that it will appoint Bidder and each of its directors, officers and any secretary or agent nominated by Bidder from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.7(a).

5.8 Amendments to Investment Deed

Bidder must ensure (and must procure that HoldCo ensures) that the Investment Deed is not amended without the consent of Target, before the issue of any HoldCo Shares to the Management Shareholders who have made valid Elections in accordance with clause 6.2.

6 Scheme Consideration

6.1 Consideration under the Scheme

On the Implementation Date, in consideration for the transfer to Bidder of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clauses 6.2 to 6.4.

6.2 Election procedure

- (a) Subject to clauses 6.2(b), 6.2(c), and 6.2(d), each of the Management Shareholders will be entitled to make an Election. All Elections will take effect in accordance with this Scheme to the extent that any Management Shareholder who makes an Election qualifies as a Scheme Participant.
- (b) A Management Shareholder who makes an Election may vary, withdraw or revoke that Election by lodging a replacement Election Form so that it is received on or before the Election Date.
- (c) An Election must be made in accordance with the terms and conditions of the Election Form and this clause 6.2, and an Election not so made will not be a valid Election for the purpose of this Scheme and will not be recognised by Bidder or Target for any purpose (provided that Bidder may, with the agreement of Target, waive this requirement and may, with the agreement of Target, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with determining the validity of any Election, and any such decision will be conclusive and binding on Bidder, Target and the relevant Management Shareholder).
- (d) If a Management Shareholder makes an Election, that Election will be deemed to apply in respect of that Management Shareholder's entire registered holding of Target Shares at the Record Date, regardless of whether the Management Shareholder's holding of Target Shares at the Record Date is greater or less than the Management Shareholder's holding at the time it made its Election, unless Bidder and Target agree otherwise, in their absolute discretion.

6.3 Determination Scheme Consideration

- (a) If the Scheme Participant is not a Management Shareholder or is a Management Shareholder who has not made a valid Election on or before the Election Date, then the Scheme Consideration applicable for that Scheme Participant is \$4.40 for each Scheme Share held by the Scheme Participant.
- (b) If the Scheme Participant is a Management Shareholder who has made a valid Election on or before the Election Date, then the Scheme Consideration applicable for that Scheme Participant is:
 - (i) in respect of 50% of the Scheme Shares held by the Scheme Participant (rounded down to the nearest whole Scheme Share), 1 HoldCo Share per Scheme Share; *plus*

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- (ii) in respect of the balance of the Scheme Shares held by the Scheme Participant, \$4.40 per Scheme Share.

For the purpose of clause 6.3(b), the Scheme Participant may determine which Scheme Shares will be exchanged for HoldCo Shares in accordance with paragraph (i), and which Scheme Shares will be acquired for cash in accordance with paragraph (ii).

6.4 Provision of Scheme Consideration

- (a) The obligation of the Target to procure payment of the Cash Scheme Consideration pursuant to clauses 2.3(a) and 5.2(b) will be satisfied by Target procuring Bidder to, no later than one Business Day before the Implementation Date, deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the Cash Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited, less bank fees and other charges, will be credited to Bidder's account) such amount to be held by Target on trust for the purpose of paying the Cash Scheme Consideration to Scheme Participants who are entitled to receive it pursuant to clause 6.4(b).
- (b) On the Implementation Date, and subject to receipt of the Cash Scheme Consideration from Bidder in accordance with clause 6.4(a), Target must pay (or procure payment) from the Trust Account to each Scheme Participant an amount equal to the applicable amount of Cash Scheme Consideration for each Scheme Share transferred to Bidder on the Implementation Date by that Scheme Participant.
- (c) Target's obligation under clause 6.4(b) will be satisfied by Target:
 - (i) depositing (or procuring the deposit of) the relevant amount into an account with any Australian ADI (as defined in the Corporations Act) notified to Target by an appropriate authority from the Scheme Participant; or
 - (ii) sending (or procuring the sending of) a cheque for the relevant amount, drawn in Australian currency, to the address of the Scheme Participant as recorded in the Register on the Record Date by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post).
- (d) To the extent that following the satisfaction of Target's obligations under clause 6.4(b), there is a surplus in the Trust Account, that surplus must be paid by Target to Bidder.
- (e) Bidder must procure that HoldCo must, before no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, procure that the name of each Scheme Participant entitled to be issued HoldCo Shares under this Scheme is entered in HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Scheme Participant, having the same holding name and address and other details as the holding of the relevant Target Shares).
- (f) On or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of a certificate to each Scheme Participant entitled to be issued HoldCo Shares under this Scheme, reflecting the issue of such HoldCo Shares.

6.5 Cancellation and reissue of cheques

Target may cancel a cheque issued under clause 6.4 if the cheque:

- (a) is returned to Target; or
- (b) has not been presented for payment within 6 months after the date on which the cheque was sent.

During the period of one year commencing on the Implementation Date, on request from a Scheme Participant to Target (or Target Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Target must reissue a cheque that was previously cancelled under this clause 6.5.

6.6 Status of HoldCo Shares

Subject to this Scheme becoming Effective, Bidder must procure that HoldCo:

- (a) issue (or procure the issue of) the HoldCo Shares required to be issued under this Scheme on terms such that each such HoldCo Share will rank equally in all respects with each other HoldCo Share on issue at the time and will have the rights set out in the HoldCo Constitution and the Investment Deed; and
- (b) ensure that each HoldCo Share required to be issued under this Scheme is duly and validly issued in accordance with all applicable laws and the HoldCo Constitution, and is fully paid and free from any Encumbrance (except for any lien arising under the HoldCo Constitution).

6.7 Orders of a court or Regulatory Authority

In the case of notice having been given to Target (or the Target Registry) of an order or direction made by a court of competent jurisdiction or Regulatory Authority:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.4, then Target must procure that payment is made in accordance with that order or direction; or
- (b) which would prevent Target from dispatching payment to any particular Scheme Participant in accordance with clause 6.4, Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the applicable amount of Cash Scheme Consideration until such time as payment in accordance with clause 6.4 is permitted by the order or direction or otherwise permitted by law,

and the payment or retention by Target will constitute full discharge of Target's obligations under clause 6.4(a) with respect of the amount so paid or retained until, in the case of clause 6.7(b), it is no longer required to be retained.

6.8 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be paid to Scheme Participants by Bidder must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at the Record Date;

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- (b) any HoldCo Shares comprised in the Scheme Consideration are to be registered in the names of the joint holders; and
- (c) any other document required to be sent under this Scheme will be forwarded, at the sole discretion of Target, either to the holder whose name appears first in the Register as at the Record Date or to joint holders.

6.9 Fractional Entitlements

Where the calculation of the Cash Scheme Consideration or the Scrip Scheme Consideration to be provided to a particular Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, or fraction of a Holdco Share, the fractional entitlement will be rounded down (as applicable) to the nearest cent or Holdco Share as the case may be.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Target if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Record Date at the place where the Register is kept.

7.2 Register

Target must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) on or before the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a Scheme Participant (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after the Record Date (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title) and any attempt to do so will have no effect and Target will be entitled to disregard any such disposal.

7.4 Maintenance of Register

For the purpose of determining entitlements to the Scheme Consideration, Target will maintain the Register in accordance with the provisions of this clause 7 until the Scheme Consideration has been paid to the Scheme Participants and Bidder has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to Bidder contemplated in clauses 5.2 and 7.4, any statements of holding in respect of Scheme Shares will cease to have effect after the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Bidder and its successors in title). After the Record Date, each entry current on the Register as at the Record Date (other than entries in respect of Bidder or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

7.6 Details of Scheme Participants

Within three Business Days after the Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at the Record Date are available to Bidder in such form as Bidder reasonably requires.

7.7 Quotation of Target Shares

Target will apply to ASX to suspend trading on ASX in Target Shares with effect from the close of trading on ASX on the Effective Date.

7.8 Termination of quotation of Target Shares

On a date after the Implementation Date to be determined by Bidder, Target will apply:

- (a) for termination of the official quotation of Target Shares on ASX; and
- (b) to have itself removed from the official list of the ASX.

8 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Target and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

- (a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer;
- (b) executing and delivering any deed or document required by Target, Bidder or HoldCo that causes each Scheme Participant entitled to HoldCo Shares to become a shareholder of HoldCo and to be bound by the Investment Deed and the HoldCo Constitution; and
- (c) enforcing the Deed Poll against Bidder,

and Target accepts such appointment.

9 Notices

9.1 No deemed receipt

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date

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and time (if any) on which it is actually received at Target's registered office or at the office of the Target Registry.

9.2 Accidental omission

The accidental omission to give notice of a Scheme Meeting or the non-receipt of such a notice by any Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 General

10.1 Variations, alterations and conditions

Target may, with the consent of Bidder (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned (including, for the avoidance of doubt, all Scheme Participants) to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

10.2 Binding effect of Scheme

To the extent of any inconsistency, this Scheme overrides the Target's constitution and binds Target and all of the Scheme Participants (including those who did not attend a Scheme Meeting and those who did not vote, or voted against this Scheme, at that meeting).

10.3 Further action by Target

Target will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

10.4 Authority and acknowledgement

Each of the Scheme Participants:

- (a) irrevocably consents to Target and Bidder doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds Target and all Scheme Participants (including those who do not attend a Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Target.

10.5 No liability when acting in good faith

Neither Target, Bidder nor HoldCo, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

10.6 Enforcement of Deed Poll

Target undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidder and/or HoldCo on behalf of and as agent and attorney for the Scheme Participants.

10.7 Stamp duty

Bidder will:

- (a) pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Participant against any liability incurred by the Scheme Participant arising from failure to comply with clause 10.7(a).

11 Governing law

11.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

11.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address set out in the Details.

Annexure E – Scheme Implementation Agreement

Scheme Implementation Agreement

Annexure C Deed Poll

Deed Poll

Dated

Given by

SME Capital Investments III Pty Ltd (ACN 628 950 514) ("**Bidder**")

SME Capital Holdings Pty Ltd (ACN 628 947 544) ("**HoldCo**")

In favour of each registered holder of fully paid ordinary shares in
Scottish Pacific Group Limited (ACN 164 013 110) ("**Target**") as at the
Record Date ("**Scheme Participants**")

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Deed Poll

Details

Parties

| | | |
|---------------|-----------|---|
| Bidder | Name | SME Capital Investments III Pty Ltd |
| | ACN | 628 950 514 |
| | Formed in | New South Wales |
| | Address | C/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 |
| | Email | aarongoh@affinityequity.com and robinong@affinityequity.com |
| | Attention | Aaron Goh and Robin Ong |

| | | |
|---------------|-----------|---|
| HoldCo | Name | SME Capital Holdings Pty Ltd |
| | ACN | 628 947 544 |
| | Formed in | New South Wales |
| | Address | C/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 |
| | Email | aarongoh@affinityequity.com and robinong@affinityequity.com |
| | Attention | Aaron Goh and Robin Ong |

| | |
|---------------------|--|
| In favour of | Each registered holder of fully paid ordinary shares in Target as at the Record Date (" Scheme Participants "). |
|---------------------|--|

| | |
|----------------------|-----------------|
| Governing law | New South Wales |
|----------------------|-----------------|

| | | |
|-----------------|----------|--|
| Recitals | A | The directors of Target have resolved that Target should propose the Scheme. |
| | B | The effect of the Scheme will be that all Scheme Shares will be transferred to Bidder. |
| | C | Target and Bidder have entered into the Scheme Implementation Agreement. |

Annexure E – Scheme Implementation Agreement

- D** In the Scheme Implementation Agreement, Bidder agreed (amongst other things) to provide or procure the provision of the Scheme Consideration to Target on behalf of the Scheme Participants, subject to the satisfaction or waiver of certain conditions.
- E** Each of Bidder and HoldCo is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform (or procure the performance of) obligations attributed to it under the Scheme.
-

Deed Poll

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

Equity Commitment Letter means a binding executed commitment letter addressed to Bidder from Concordant Investments Pte Ltd dated on or about the date of this document.

Liability means a debt, liability or obligation, whether actual, prospective, contingent or otherwise and whether or not ascertained, and whether or not owing or incurred alone, or jointly and severally, with any other person.

Original Scheme Implementation Agreement means the scheme implementation agreement dated 24 September 2018 between Target and Bidder, which has been amended and replaced by the Scheme Implementation Agreement.

Scheme means the proposed scheme of arrangement between Target and Scheme Participants under which all the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this document, or as otherwise agreed by Bidder and Target, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by Target and Bidder in accordance with clause 3.1(c) of the Scheme.

Scheme Implementation Agreement means the scheme implementation agreement dated _____ 2018 between Target and Bidder, which amended and replaced the Original Scheme Implementation Agreement, under which, amongst other things, Target has agreed to propose the Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to the Scheme.

All other words and phrases used in this document have the same meaning as given to them in the Scheme.

1.2 General interpretation

Clause 1.2 of the Scheme applies to this document.

1.3 Nature of deed poll

Bidder and HoldCo acknowledge that:

- (a) this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints Target as its agent and attorney to enforce this document against Bidder and HoldCo on behalf of the Scheme Participant.

Annexure E – Scheme Implementation Agreement

2 Conditions precedent and termination

2.1 Conditions precedent

Each of Bidder's and HoldCo's obligations under clause 4 are subject to the Scheme becoming Effective.

2.2 Termination

Each of Bidder's and HoldCo's obligations under this document will automatically terminate and the terms of this document will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date; or
- (b) the Scheme Implementation Agreement is terminated in accordance with its terms.

2.3 Consequences of termination

If this document is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) Bidder and HoldCo are released from their obligations to further perform this document except Bidder's obligations contained in clause 7.2 and any other obligations which by their nature survive termination; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against Bidder and HoldCo in respect of any breach of this document which occurs before it is terminated.

3 Performance of obligations generally

Bidder will comply with its obligations under the Scheme Implementation Agreement and, subject to clause 2, each of Bidder and HoldCo covenants in favour of the Scheme Participants that it will perform (or procure the performance of) obligations attributed to it under the Scheme as if Bidder and HoldCo were party to the Scheme.

4 Scheme Consideration

4.1 Scheme Consideration

Subject to clause 2, Bidder and HoldCo undertake in favour of each Scheme Participant to:

- (a) provide or procure the provision of the Scheme Consideration to the Scheme Participants in accordance with the Scheme; and
- (b) undertake all other actions attributed to them under the Scheme, subject to and in accordance with the Scheme.

4.2 Provision of Scheme Consideration

The obligations of Bidder and HoldCo under clause 4.1 will be satisfied if, in respect of the Scheme Consideration:

- (a) Bidder, no later than one Business Day before the Implementation Date, deposits (or procures the deposit) in Immediately Available Funds the aggregate amount of the Cash Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited, less bank fees and other charges, will be credited to Bidder's account);
- (b) no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, HoldCo issues all of the HoldCo Shares which it is obligated to issue to applicable Scheme Participants under the Scheme and Bidder provides Target with written confirmation that HoldCo has done so;
- (c) Bidder and HoldCo no later than 12 noon (or such later time as Bidder and Target may agree in writing) on the Implementation Date, procure that the name of each Scheme Participant entitled to be issued HoldCo Shares under the Scheme is entered in HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Scheme Participant, having the same holding name and address and other details as the holding of the relevant Target Shares); and
- (d) on or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of a certificate to each Scheme Participant entitled to be issued HoldCo Shares under the Scheme, reflecting the issue of such HoldCo Shares,

in each case, in accordance with, and subject to, the provisions of the Scheme.

4.3 HoldCo Shares to rank equally

HoldCo covenants in favour of each Scheme Participant entitled to be issued HoldCo Shares that the HoldCo Shares issued in accordance with the Scheme will:

- (a) rank equally in all respects with each other HoldCo Share on issue at the time and will have the rights set out in the HoldCo Constitution and the Investment Deed; and
- (b) be issued fully paid and free from any mortgage, charge, lien, Encumbrance or other security interest.

5 Representations and warranties

- (a) Each of Bidder and HoldCo represents and warrants, in respect of itself, that:
 - (i) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation or formation, is validly existing under those laws and has power and authority to own its assets and carry on its business as it is now being conducted;
 - (ii) **(power)** it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;
 - (iii) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document do not and will not conflict with:

Annexure E – Scheme Implementation Agreement

- (A) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded;
 - (B) any law, judgment, ruling, order or decree binding on or applicable to it or its assets; or
 - (C) any Encumbrance or document binding on or applicable to it;
 - (iv) **(authorisations)** it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;
 - (v) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms; and
 - (vi) **(solvency)** is not Insolvent.
- (b) Each of Bidder and HoldCo represents and warrants to each Scheme Participant that, immediately prior to implementation of the Scheme, each of Bidder and HoldCo:
- (i) has not commenced trading or conducted business other than, in connection with their respective incorporations (as applicable), entry into the Scheme Implementation Agreement and any ancillary documents (as agreed between Target and Bidder for the purposes of this clause), the Equity Commitment Letter, the Investment Deed, the Disclosure Letter and this document and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Transaction) (each a “**Relevant Matter**”);
 - (ii) does not own any assets and does not have any Liabilities, other than assets derived, or Liabilities incurred, in connection with, as applicable, a Relevant Matter or otherwise disclosed in writing to Target prior to the date of the Scheme Implementation Agreement; and
- in each case, other than as expressly contemplated in this document or the Scheme.
- (c) HoldCo warrants to each Scheme Participant that receives HoldCo Shares in accordance with the Scheme that, from the date of the Scheme Implementation Agreement until immediately prior to the implementation of the Scheme, it has not issued any HoldCo Shares:
- (i) other than for cash;
 - (ii) at an issue price that is less than \$4.40 per HoldCo Share; and
 - (iii) other than in connection with the funding of the Scheme Consideration or the payment of costs, fees and expenses incurred in connection with the Transaction,
- unless otherwise agreed with Target.

6 Continuing obligations

- (a) Subject to clause 9.1, this document is irrevocable and, subject to clause 2, remains in full force and effect until:
 - (i) Bidder and HoldCo have fully performed their respective obligations under this document; or
 - (ii) the earlier termination of this document under clause 2.2.
- (b) From the date of this document until immediately prior to the implementation of the Scheme, HoldCo will not issue any HoldCo Shares:
 - (i) other than for cash;
 - (ii) at an issue price that is less than \$4.40 per HoldCo Share; and
 - (iii) other than in connection with the funding of the Scheme Consideration or payment of costs, fees and expenses incurred in connection with the Transaction,unless otherwise agreed by Target.

7 Costs

7.1 Costs

Bidder agrees to pay all costs in respect of the Scheme (including in connection with the transfer of Target Shares to Bidder in accordance with the terms of the Scheme).

7.2 Stamp duty and registration fees

Bidder:

- (a) agrees to pay or reimburse all stamp duty, registration fees and similar taxes payable or assessed as being payable in connection with this document, or any other transaction contemplated by this document (including any fees, fines, penalties and interest in connection with any of these amounts); and
- (b) indemnifies each Scheme Participant against, and agrees to reimburse and compensate it, for any liability in respect of stamp duty under clause 7.2(a).

8 Notices

Notices and other communications in connection with this document must be in writing. They must be sent to the address or email address referred to in the Details and (except in the case of email) marked for the attention of the person referred to in the Details. If the intended recipient has notified changed contact details, then communications must be sent to the changed contact details.

Annexure E – Scheme Implementation Agreement

9 General

9.1 Variation

A provision of this document or any right created under it may not be varied, altered or otherwise amended by Bidder or Holdco unless:

- (a) if before the First Court Date, the variation is agreed to by Target in writing; and
- (b) if on or after the First Court Date, the variation is agreed to by Target in writing and the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Bidder and HoldCo must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

9.2 Partial exercising of rights

Unless this document expressly states otherwise, if Bidder or HoldCo does not exercise a right, power or remedy in connection with this document fully or at a given time, it may still exercise it later.

9.3 Remedies cumulative

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

9.4 Assignment or other dealings

Bidder, HoldCo and each Scheme Participant may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied without the consent of Bidder and Target.

9.5 Further steps

Bidder and HoldCo agree to do anything including executing all documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this document and the transactions contemplated by it.

9.6 Counterparts

This document may consist of a number of copies, each signed by one or more parties to it. If so, the signed copies are treated as making up a single document.

10 Governing law and jurisdiction

10.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. Bidder and HoldCo submit to the non-exclusive jurisdiction of the courts of that place.

10.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on Bidder or HoldCo by being delivered or left at Bidder's or HoldCo's respective address set out in the Details.

EXECUTED as a deed poll

Annexure E – Scheme Implementation Agreement

Deed Poll

Signing page

DATED:_____

EXECUTED by SME CAPITAL
INVESTMENTS III PTY LTD in
accordance with section 127(1) of the
Corporations Act 2001 (Cth) by
authority of its directors:

.....
Signature of director

.....
Name of director (block letters)

.....
Signature of director/company
secretary

.....
Name of director/company secretary
(block letters)

EXECUTED by SME CAPITAL
HOLDINGS PTY LTD in accordance
with section 127(1) of the Corporations
Act 2001 (Cth) by authority of its
directors:

.....
Signature of director

.....
Name of director (block letters)

.....
Signature of director/company
secretary

.....
Name of director/company secretary
(block letters)

Deed Poll

Annexure A - Scheme



Corporate Directory

SCOTTISH PACIFIC GROUP LIMITED

ABN 45 164 013 110

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

DIRECTORS

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

COMPANY SECRETARIES

Mr. David Rose
Ms. Emma Lawler

HEAD OFFICE AND REGISTERED OFFICE

Level 5,
20 Bond Street
Sydney, NSW 2000

GPO Box 9969
Sydney NSW 2001

Telephone +61 2 9372 9999

www.scottishpacific.com

SHARE REGISTRY

Link Market Services Ltd

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680 George Street
Sydney, NSW 2000

Telephone +61 1300 554 474

registrars
@linkmarketservices.com.au
www.linkmarketservices.com.au

AUDITOR

Deloitte
Level 9,
225 George Street
Sydney, NSW 2000

Telephone +61 2 9322 7000

www.deloitte.com

NOTICE OF ANNUAL GENERAL MEETING

Friday 30th November 2018

10:30am

Dexus Place
Level 5,
1 Margaret Street
Sydney, NSW 2000

OFFICE LOCATIONS

AUSTRALIA

Sydney

Level 5,
20 Bond Street
Sydney, NSW 2000

Melbourne

Level 9,
333 Collins Street
Melbourne, VIC 3000

Brisbane

Level 18,
10 Eagle Street
Brisbane, QLD 4000

Perth

Ground Floor
88 Collins Street
West Perth, WA 6005

Adelaide

Level 3,
431 King William Street
Adelaide, SA 5000

NEW ZEALAND

Auckland

Level 4,
32-34 Mahuhu Crescent
Auckland

ENGLAND

London

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London, WC1E 6HH

CHINA

Guangzhou

Room 1208
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No.16 Hua Xia Road
Zhujiang New Town
Guangzhou



scottish pacific
BUSINESS FINANCE