

Scottish Pacific Group Limited

(Formerly known as Tartan Holdco Pty Limited)

ABN 45 164 013 110

Financial Statements - 30 June 2016

Scottish Pacific Group Limited

Directors' report

30 June 2016

The directors present their report, together with the financial statements, on the consolidated Group (referred to hereafter as the 'Group') consisting of Scottish Pacific Group Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

The names and particulars of the directors (referred to hereafter as the 'Board') of the Company during or since the end of the financial year.

Directors



Patrick Elliott
Non-Executive Chairman

Patrick was appointed to the Board on 29 May 2013.

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

Prior to founding Next Capital, Patrick was an Executive Director of Macquarie Bank having joined the private equity division in 1997, with experience in a broad range of sectors including retail, industrial and consumer products and services. Patrick was Chairman of JB Hi-Fi Limited from 2000 to 2012 and Chairman of the Australian Venture Capital Association Limited (AVCAL) in 2004.

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

Special responsibilities:

Chair - Remuneration & Nominations Committee

Member - Audit and Risk Committee



Peter Langham
Chief Executive Officer and Executive Director

Peter has over 32 years of experience in the Debtor Finance industry with experience in audit and credit, international factoring, client management and sales.

In 1988, Peter joined Bank of Scotland Debtor Finance business in a sales role and was appointed as Head of Sales for England and Wales in 1991.

In 1993, Peter joined Scottish Pacific (then owned by Bank of Scotland) and in 1997 Peter joined AGC, the Debtor Finance arm of Westpac, before establishing Benchmark Debtor Finance Pty Limited in 1998.

In 2005, the founding shareholders of Benchmark Debtor Finance sold their interests to BA Ventures Limited and Benchmark continued on a growth path which culminated in the acquisition of Scottish Pacific Business Finance in 2007.

Peter has remained CEO since 2005.



Peter Clare
Independent Non-Executive Director

Peter was appointed to the Board on 18 December 2014.

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

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

He is a member of the Australian Institute of Company Directors and the Governance Institute of Australia and a fellow of CPA Australia and the Financial Services Institute of Australasia ("Finsia").

Special responsibilities:

Member - Remuneration & Nominations Committee

Directorships of other listed companies:

Reffind Limited (Chairman)	April 2015
ChimpChange LLC (Chairman)	April 2015
Rubik Financial Ltd	June 2016

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Katrina Onishi
*Independent Non-Executive
Director*

Katrina was appointed to the Board on 9 June 2016.

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

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

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

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

Special responsibilities:

Member - Audit and Risk Committee

Directorships of other listed companies:

Vitaco Holdings Limited (Non-Executive Director and Chairman of the Audit Committee)
August 2015



Andrew Love
*Independent Non-Executive
Director*

Andrew was appointed to the Board on 9 June 2016.

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

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

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

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

Special responsibilities:

Chair - Audit and Risk Committee

Directorships of other listed companies:

Gateway Lifestyle Group (Non-Executive Chairman) – April 2016

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

Roc Oil Company Limited February 1997 – December 2013

The above named directors held office since the end of the financial year except for:

James Murphy
Non-Executive Director

James was appointed to the Board on 1 July 2013 – resigned on 9 June 2016.

Steven Lipchin
Non-Executive Director

Steven was appointed to the Board on 9 December 2014 – resigned 9 June 2016.

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Company Secretaries

Mr Christopher Hedge, was appointed to Company Secretary in January 2016. He holds a Bachelor of Business – University of Technology, Sydney. Chris has over 19 years' experience in the Debtor Finance industry and 11 years working with SME clients in the accounting profession and related financial services. He joined the Group in 2003, where he has held a number of executive positions with the Group including Head of Debtor Finance, and took over the CFO role for the Group in 2016.

Chris attended meetings from February 2016 to June 2016.

Ms Lynda McMullen, was appointed to Company Secretary in March 2015. She holds a Graduate Diploma in Applied Corporate Governance, is a Certified Practicing Accountant, holds a Master of Business Administration from Melbourne Business School (Melbourne University), and holds a Bachelor of Commerce from The University of Western Sydney - Nepean.

She is a member of the Governance Institute of Australia and a member of CPA Australia. She has spent much of her 26 year career in the finance sector, and has been Financial Controller for Scottish Pacific since 2011.

Lynda attended meetings from July 2015 to January 2016.

Mr Ian Nicol was Company Secretary July 2013 to March 2015.

Subsequent to year end:

Ms Emma Lawler was appointed as Company Secretary in August 2016 and has over 15 years' experience as a Company secretary. Emma holds a Bachelor of Business and a Graduate Diploma in Applied Corporate Governance and is a Fellow of the Governance Institute of Australia.

Principal activities

During the financial year the principal continuing activities of the Group consisted of:

- the provision of debtor finance
- the provision of trade finance

Dividends

There were no dividends declared or paid by the Company during the year ended 30 June 2016. During the year the directors recommended the payment of a dividend of \$0.316 per share franked to 100%. The dividend was subject to the Initial Public Offer ("IPO") of the Company. The dividend of \$36.3 million was declared and paid to holders of ordinary shares in the Company on 13 July 2016.

Review of operations

Operating and Financial Review

The Board presents its FY2016 operating and financial review to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for the future. This review complements the financial report.

Principal Activities and Review of Operations

Scottish Pacific Group Limited is a long standing, specialised financial services provider. Specifically, the Group provides working capital to businesses operating in Australia, New Zealand ("NZ") and the United Kingdom ("UK"). The business in the UK is a very new one and only commenced operations in May 2015.

Over the past 28 years the Group has developed highly specialised credit underwriting skills and credit management skills. These skills are used to provide working capital to a wide range of businesses - some that are in start-up phase right through to small publicly listed companies that have been trading for many years.

Debtor finance is the most popular type of working capital facility that the Group provides and it represents over 95% of the Group's receivables book. We estimate that the Group now has a market share of 20% of the debtor finance market within Australia.

The Group also provides trade finance facilities to clients. This entails the financing of specific transactions where either the supplier or the end customer is resident outside of Australia, NZ or UK. The Group's trade finance business is still a young business and represents less than 5% of the Group's receivables book. However, it has an exciting growth profile which is reflected in its strong growth during FY2016 (albeit from a very small base).

The Group has enjoyed healthy rates of organic business growth over the past 5 years. FY2016 was an unusual year in that it presented three separate and distinct opportunities for the Group to expand its operations by acquiring the business of competitors in the Australian debtor finance market. One of those opportunities also included acquiring a small number of debtor finance clients in the NZ market.

Those acquisitions proceeded on 31 December 2015 (Bibby Financial Services Australia Pty Ltd "Bibby"), 3 May 2016 (the debtor finance business of GE Commercial in Australia and New Zealand "GE") and 27 May 2016 (Suncorp-Metway's debtor finance business "Suncorp"). The Australian Competition and Consumer Commission conducted a review of the Bibby and GE proposed acquisitions and decided to take no further action once they had completed their review. The cumulative effect of the three acquisitions meant that the Group's combined receivables book had doubled in size by year end.

The vast majority of the Group's new clients are referred by third parties (i.e. finance brokers, accountants, business advisors, bankers and past and present clients). During FY2016 the Group broadened its referral partner network by agreeing to non-exclusive referral partner agreements with ANZ and Suncorp-Metway. A concerted effort to lift the proportion and absolute level of new business generated by online origination and other direct contact with prospective new clients also proved to be very successful – direct business increased from contributing 9% of new deals per annum in FY2015 to contributing more than 20% in FY2016.

Funding

FY2016 saw the Group undertake a major restructure and diversification of its funding platform. Since 2010 a single warehouse facility had existed to fund the Australian client receivables book. A similar warehouse facility established in NZ funded the NZ client receivables book. Both of those facilities continue today essentially unchanged. In FY2016 the Group established two additional warehouse facilities for the Australian client receivables book and one of those warehouse facilities also provides funding to our NZ client receivables book. A mezzanine facility was also established to augment the funding provided by the three Australian warehouse facilities.

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Review of operations (continued)

The Group's business operations are now funded by a mix of warehouse facilities, mezzanine facilities, corporate debt facilities and surplus cash generated from normal business operations.

Warehouse facilities: third party funders provide limited recourse financing to special purpose vehicles ("SPVs") that have been established by the Group to fund the purchase of receivables. These facilities are asset backed and are non-recourse to Scottish Pacific.

Mezzanine facilities: these facilities are also asset backed and are non-recourse to the Group. Mezzanine facilities support the warehouse facilities by providing "first loss" capital to the SPVs.

Corporate Debt facilities: fund a range of general corporate expenses, including ongoing working capital needs and the acquisition of new businesses. This debt is guaranteed by and has recourse to the Group.

FY2016 also saw a net increase in corporate debt of \$45m - from \$24m in FY2015 to \$69m in FY2016 (although this amount has since year end been reduced to \$59m). The net increase in corporate debt was used to partially fund the acquisition of the Bibby business. The Group issued further share capital of \$70.9m (less transaction costs of \$2.1m) during FY2016 to complete the Bibby and GE acquisitions.

Principal Risks

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

Debtors and clients unable to meet their financial obligations

As a provider of working capital to businesses, the most fundamental risk to the Group is that its client and debtors do not meet their financial obligations. Whilst our primary recourse is against the client, the Group also has recourse to the client's debtors, so the risk of failure of the client is mitigated. Significant over collateralisation of our portfolio of assigned receivables and strong underwriting standards mitigate the risk of material loss.

Major Fraud Events

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

Funding Risk

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

Regulatory changes

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

Business Strategies and Prospects

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

In Australia, NZ and the UK, small and medium sized enterprises (SME) continue to remain underserved by traditional bank lending practices and it is this opportunity that Scottish Pacific seeks to maximise. Successful product innovation has been and will continue to be an important driver of business growth for the Group in seeking to maximise this opportunity.

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Review of operations (continued)

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

The newly acquired businesses have been merged into the Group's business with the aim of (a) achieving substantial cost synergies at a corporate level; and (b) leveraging the greater number of clients by cross selling new products. We expect FY2017 trading performance to be positively influenced by these structural improvements.

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

Financial Review

Income Statement

On a statutory reporting basis, net revenue increased by \$23.8m (48%) to \$73.2m (FY2015 \$50.0m). This was driven by:

- continued organic growth within the Group's stand-alone business
- the inclusion of 6 months of revenues for the Bibby business for the first time
- the inclusion of the GE client portfolio revenues for 59 days for the first time
- the inclusion of the Suncorp client portfolio revenues for 35 days for the first time

Total statutory expenses increased by \$37.2m (103%) to \$72.8m (2015: \$35.9m). This was driven by:

- additional expenses intrinsically linked to the additional revenues generated by the newly acquired business and client portfolios
- additional expenses intrinsically linked to the ongoing organic growth of the core business
- a number of non-repeating expenses linked to the integration of the Bibby business into the Scottish Pacific Group e.g. early termination of premises leases, staff redundancy payments
- a number of large non-repeating expenses incurred in diversifying the Group's funding platform e.g. legal and other advisory fees incurred in establishing two new warehouse facilities and a mezzanine facility
- a number of large non-repeating expenses incurred in preparing the Group for the IPO which took place on 13 July 2016.

The Group recorded a statutory net profit before tax of \$0.5m (2015: \$14.1m) which was ahead of the FY2016 forecast by \$0.3m. This represented a \$13.6m decrease on the FY2015 result but, as outlined above, this trading result included a number of large expenses that are unlikely to be repeated in the future.

Balance Sheet

The merger and integration of the three recently acquired businesses into the Group has had a significant effect on the FY2016 Balance Sheet when compared to the FY2015 Balance Sheet:

- client receivables increased 102% from \$369.3m to \$745.7m,
- the value of goodwill & customer relationships increased 190% from \$56.1m to \$162.7m.
- drawn securitised debt facilities increased 117% from \$374.1m to \$812.6m
- drawn corporate loan facilities increased 188% from \$24.0m to \$69.0m
- share capital increased 94% from \$75.2m to \$146.1m (after transaction costs).

Undrawn securitised debt facilities are approx. \$400.0m while undrawn corporate loan facilities, post listing date are \$11.0m

Initial Public Offering ("IPO")

On 13 July 2016, the Group embarked on an IPO and listed on the ASX under the ASX ticker code of SCO. The IPO comprised an offer of 24.2 million new shares and the sale of 67.6 million existing shares at an offer price of \$3.20 per share. The sale of new shares raised \$77.3m (less Offer costs of \$6.8m). This increase in share capital will be reflected in the FY2017 balance sheet.

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Significant changes in the state of affairs

During the financial year the Group acquired Bibby (now known as Scottish Pacific (BFS) Pty Limited) from Bibby Group of Factors Limited. The purchase was finalised on 31 December 2015.

The Group issued new equity amounting to \$49.9m and arranged a new corporate finance facility for \$100.0m from which the Bibby acquisition was funded and existing mezzanine finance was retired.

The capital base of the Company was restructured to fund the Bibby acquisition and provide a diversified and scalable platform for growth. The Company established a SPV for the Scottish Pacific (BFS) Pty Limited client receivables and financing of those receivables. This arrangement is similar to the arrangements of the Company's existing receivables and funding.

The debtor finance business of GE was acquired from Bain Capital, on 3 May 2016. Included in the net assets were receivables amounting to \$183.7m. These client receivables and the financing of these receivables was established in a third newly created SPV.

The debtor finance business of Suncorp-Metway was acquired on 27 May 2016. Included in the net assets were receivables amounting to \$30.2m. These client receivables are held in and funded through the existing Scottish Pacific SPV. For further details regarding acquisitions refer Note 23.

The newly acquired businesses contributed \$18.1 million in net revenue in 2016.

On 22 June 2016, the Company issued additional equity amounting to \$21.0m to Bain Capital. During the year, the directors launched an IPO of the Group's shares which occurred on 13 July 2016. In preparation for the IPO, the Company converted from a proprietary company to a public company and had a change in name on 3 June 2016. The Company previously known as Tartan Holdco Pty Limited, changed its name to Scottish Pacific Group Limited.

More information regarding the acquisitions, including pro forma financial information for the Group as at 31 December 2015, is set out in the prospectus document which was lodged with ASIC in June 2016 as part of the IPO.

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

Matters subsequent to the end of the financial year

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

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

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

The proceeds of the IPO were applied to:

Payment to existing shareholders	\$216.2m
Payment of the pre-IPO dividend to existing shareholders	\$36.3m
Repayment of corporate debt	\$10.0m
Cancellation payment for legacy options	\$12.4m
Payment of the transactions costs associated with the IPO	\$18.6m
	\$293.5m

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Matters subsequent to the end of the financial year (continued)

There were no dividends paid by the Company during the year ended 30 June 2016. Prior to year end the directors recommended the payment of a dividend of \$0.316 per share franked to 100%. The dividend was conditional upon the IPO of the Company, which occurred on 13 July 2016. The dividend of \$36.3m was declared and paid on 13 July 2016.

The Group implemented a long term incentive scheme in 2013 after investment funds advised by Next Capital acquired a controlling interest in the Group. This scheme consisted of the grant of options over shares in the Company (exercised legacy options) which were subject to certain vesting conditions which were satisfied on completion of the IPO. The holders of legacy options irrevocably offered to exercise a portion of the legacy options, and accept the cancellation of a portion of their legacy options in return for a cash payment (redeemed legacy options). The Board resolved to accept this offer, which resulted in payments being made and shares being issued on 13 July 2016.

For more information regarding the IPO, reference should be made to the prospectus document which was lodged with ASIC in June 2016 as part of the IPO. The Prospectus is available on the Company's website.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments

In FY17 the Group will continue to focus on its core business while fully integrating its recent acquisitions into existing business operations with a view to maximizing their long term benefits. The Group will also continue to explore opportunities for enhanced distribution arrangements and, where appropriate, introduce new products to continue to grow our business. The Board remains alert to exploring opportunities to grow by further acquisitions but does not see that as a significant source of revenue growth in FY2017.

Environmental regulation

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

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Attended	Held
Mr P Elliott	12	12
Mr J Murphy	12	12
Mr P Langham	11	12
Mr P Clare	10	12
Mr S Lipchin	12	12
Ms K Onishi	-	-
Mr A Love	-	-

Held: represents the number of meetings held during the time the director held office.

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Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The Remuneration and Nomination Committee is of the opinion that the continued improvement in trading results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Key management personnel

The directors and key management personnel of the consolidated entity during or since the end of the financial year were:

Non-executive directors

Mr P Elliott	Chairman, Non-executive director
Mr J Murphy (resigned 9 June 2016)	Non-executive director
Mr P Clare	Non-executive director
Mr S Lipchin (resigned 9 June 2016)	Non-executive director
Ms K Onishi (appointed 9 June 2016)	Non-executive director
Mr A Love (appointed 9 June 2016)	Non-executive director

Executive officers

Mr P Langham	Executive Director, Chief Executive Officer
Mr C Hedge	Chief Financial Officer (appointed January 2016)
Mr P Green	Head of Risk and Compliance

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Principles used to determine the nature and amount of remuneration

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

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

From time to time the Remuneration and Nomination Committee may engage with external remuneration consultants to review the structure of the executive remuneration framework to ensure that it is market competitive and complementary to the reward strategy of the consolidated entity.

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Principles used to determine the nature and amount of remuneration (continued)

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

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

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

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

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

Non-executive directors remuneration

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

Under the Constitution, the Company in general meetings may determine the maximum aggregate remuneration to be provided to or for the benefit of the directors as remuneration for their services as a director ("Directors' Remuneration"). Further, under the ASX Listing Rules, the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company's members in general meeting.

Initially, and until a different amount is determined, the Constitution provides that the maximum aggregate Directors' Remuneration is \$750,000 per annum. This amount excludes, among other things, amounts payable to any executive director under any executive services agreement with the Group or any special remuneration which the Board may grant to the directors for special exertions or additional services performed by a director for or at the request of the Company, which may be made in addition to or in substitution for the director's fees.

The annual directors' fees currently agreed to be paid by the Company are \$175,000 to the Chairman of the Board and \$100,000 to each of the other non-executive directors. In addition, the following annual fees are payable to directors for their involvement in Board committees:

Board Committee Fees

Committee	Chairman fee	Member fee
Audit and Risk Committee	\$15,000	\$7,500
Remuneration and Nomination Committee	\$15,000	\$7,500

Superannuation payments are included in directors' fees and committee fees.

A one-off fee of \$40,000 was paid subsequent to year end to each of Katrina Onishi, Andrew Love and Peter Clare for services provided by each of them in connection with the Initial Public Offering.

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Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are to be reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') programme is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

Key Terms of the STI Scheme

Term	Description
Eligibility	KMP Executives
Performance period	▪ 1 July 2015 – 30 June 2016
Performance assessment finalised	▪ Post audit of 30 June 2016 accounts
Payments made	▪ October 2016
Eligibility requirements for payment	<ul style="list-style-type: none">▪ Be an employee of a Group Company at payment date;▪ Be employed by a Group Company for at least six months of the respective financial year. A pro rata incentive will be determined where the employment period was less than twelve months of the year but longer than six months;▪ Complete an appraisal with relevant manager;▪ Not be under any form of performance management,▪ Not be a member of another Group Company cash based incentive scheme (such as any Sales Incentive Commission Plan)
Maximum opportunity as a proportion of cash salary	30%
Option for discretion	<p>The CEO may adjust the portion of the STI awarded to other KMP executives.</p> <p>The STI is at the discretion of the CEO and the Board of Directors and is subject to change or cancellation at any time.</p>

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Executive remuneration (continued)

The Board has determined that the Group's current remuneration policy for its eligible employees includes an annual incentive program, payments under which are subject to satisfaction of performance criteria set by the Board each year. Payment of short-term incentives in any given year is conditional upon achievement of:

- Performance criteria tailored to each respective role (if any); and
- The Group's financial performance against criteria set by the Board.

The Board has determined that the short-term incentives for the CEO and CFO will be calculated by reference to the Group's NPAT in that year. In the event that the Group's NPAT:

- Is 95% of its forecast NPAT each of the CEO, CFO and other selected members of the management team will be entitled to a bonus equivalent to 10% of their maximum short term incentive;
- Is the same as the forecast NPAT, each of the CEO, CFO and other selected members of the management team will be entitled to 60% of their maximum short term incentive pro rata on a straight line basis having regard to the amount by which the Group's NPAT exceeds 95% of its target.
- Exceeds the forecast NPAT by 10%, each of the CEO, CFO and other selected members of the management team will be entitled to 100% of their maximum short term incentive pro rata on a straight line basis having regard to the amount by which the Group's NPAT exceeds the target NPAT.

The Board has also determined that the short term incentives for other selected members of the management team will either be entirely calculated by reference to the Group's NPAT (as described above), or 50% of their short term incentive calculated by reference to the Group's NPAT and the remaining 50% calculated by reference to performance criteria tailored for each respective role.

The Board has determined that in respect of FY2017F, no short term incentives will be payable in the event that forecast pro forma NPATA for FY2017F as set out in this Prospectus is not met.

The long-term incentives ('LTI') include long service leave and share-based payments. Options are awarded to executives over a period of three years based on long-term incentive measures. These include increase in earnings per share. The Remuneration and Nomination Committee will follow the mandate of reviewing the long-term equity-linked performance incentives specifically for executives.

Key Terms of the LTI Scheme (new plan commencing 1 July 2016)

Term	Description
Eligibility	<ul style="list-style-type: none">▪ Executive Directors and other selected employees of the Group may participate in the LTI Scheme. Non-Executive Directors are not permitted to participate in the LTI Scheme.▪ Eligibility to participate in the LTI Scheme and the number of Options offered to each participant will be determined by the Board.
Grants	<ul style="list-style-type: none">▪ Under the rules of the LTI Scheme, Options may be offered to eligible participants from time to time.▪ The Company intends that the maximum notional value of the Options offered to the CEO and CFO will be 60% of their total fixed remuneration and to other members of Management will be between 10% and 30% of their total fixed remuneration depending on the member of Management.

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Executive remuneration (continued)

Options	<ul style="list-style-type: none">▪ Each Option confers on its holder the entitlement to receive one or more Shares (by way of issue or transfer, as determined by the Company) at the exercise price (if any) upon exercise of the Option.▪ Options will not be quoted on the ASX. Subject to the ASX Listing Rules, the Company will apply to the ASX for the quotation of any Shares issued to participants for the purpose of the LTI Scheme.
Ranking of Shares	<ul style="list-style-type: none">▪ Shares issued upon vesting and exercise of Options under the LTI Scheme will rank equally in all respects with existing Shares.
Rights attaching to Options	<ul style="list-style-type: none">▪ The Options do not carry rights to dividends or voting rights prior to exercise.
Expiry of Options	<ul style="list-style-type: none">▪ Options will expire on a date fixed in the offer letter to the particular employee. This may vary from employee to employee or between different grants.▪ On the expiry date for an Option, the Option will lapse (unless it has been validly exercised).
Amendments	<ul style="list-style-type: none">▪ Subject to the ASX Listing Rules, the Board may, in its absolute discretion, amend the LTI Scheme rules, or waive or modify the application of the LTI Scheme rules in relation to a participant, provided that (except in specified circumstances) if such amendment would adversely affect the rights of participants in respect of any Options already held by them, the Board must obtain the consent of that participant before that amendment applies to that participant's existing Options.

The options granted are subject to a performance condition based on compound annual growth rate Earnings Per Share.

Service agreements

On appointments to the Board after it was listed as a public company, Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the Director.

Remuneration and other terms of employment for the CEO, Mr P Langham, and other executives are set out in their respective letters of employment. The employment terms do not prescribe the duration of employment for executives.

There is a six month notice period required to terminate the employment contracts of Mr P Langham, Mr C Hedge, and Mr P Green.

No provision is made in the contracts for termination payments other than amounts paid in respect of notice of termination.

Scottish Pacific Group Limited
Directors' report
30 June 2016

Remuneration of directors and key management personnel

	Salary and fees \$	Cash Bonus \$	Short-term employee benefits Non-monetary \$	Other \$	Post employment benefits Super- annuation \$	Long-term employee benefits Long service leave \$	Share- based payment Options and rights \$	Total \$
2016								
Non-executive directors								
Mr P Elliott	-	-	-	-	-	-	-	-
Mr P Clare	68,493	-	-	-	6,507	-	-	115,000
Mr A Love	40,000	-	-	-	-	-	-	40,000
Ms K Onishi	36,200	-	-	-	3,800	-	-	40,000
Executive officers								
Mr P Langham	430,628	-	-	-	19,308	27,437	-	477,373
Mr C Hedge	244,400	87,228	-	-	19,308	6,027	-	356,963
Mr P Green	239,727	81,506	60	-	19,308	10,560	-	351,161
								1,380,497

Cash bonuses were paid based on the STI scheme. 50% of bonus was achieved based on budget targets. An additional payment was made to Mr P Green and Mr C Hedge for additional contributions during the take-over of Bibby.

	Salary and fees \$	Cash Bonus \$	Short-term employee benefits Non-monetary \$	Other \$	Post employment benefits Super- annuation \$	Long-term employee benefits Long service leave \$	Share- based payment Options and rights \$	Total \$
2015								
Non-executive directors								
Mr P Elliott	-	-	-	-	-	-	-	-
Mr P Clare	36,091	-	-	-	3,429	-	-	39,520
Executive officers								
Mr P Langham	354,330	-	-	-	19,506	6,784	-	380,620
Mr C Hedge	236,766	-	-	-	19,506	-	-	258,386
Mr P Green	205,565	-	-	-	19,506	4,808	-	229,879
								908,405

Cash bonuses were to be paid based on the STI scheme. 0% of bonus was achieved based on budget targets.

Scottish Pacific Group Limited

Directors' report

30 June 2016

Remuneration of directors and key management personnel (continued)

The relative proportions of those elements of remuneration of non-executive directors and key management personnel that are linked to performance are as follows

	Fixed remuneration		Remuneration linked to performance	
	2016	2015	2016	2015
Non-executive directors				
Mr P Elliott	100%	100%	-	-
Mr J Murphy	100%	100%	-	-
Mr P Clare	100%	100%	-	-
Mr S Lipchin	100%	100%	-	-
Ms K Onishi	100%	-	-	-
Mr A Love	100%	-	-	-
Executive officers				
Mr P Langham	100%	100%	Nil	Nil
Mr C Hedge	70%	70%	30%	30%
Mr P Green	70%	70%	30%	30%

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Employee Share Option Plan

Plan existing at 30 June 2016

The Company has established the plan to allow its officers and senior management to participate in the long-term success of the Company's business by giving those persons the opportunity to share in the ownership of the Company.

Key Features of the Plan

The plan offers eligible persons ownership of options that may be converted into management preference shares in the capital of the Company. These options are exercisable and convertible into shares in the future upon the satisfaction by participants of certain vesting conditions

The Company has established this plan to enable eligible persons to share in the ownership of the Company in order to:

- promote the long-term success of the Group;
- provide a strategic, value based reward for eligible persons who make a key contribution to that success;
- align eligible persons' interests with the interests of the Company's shareholders; and
- promote the retention of eligible persons

Scottish Pacific Group Limited
Directors' report
30 June 2016

Share-based compensation

Options

There were no options over ordinary shares granted to or vested by directors and key management personnel as part of compensation during the year ended 30 June 2016.

Options held in Scottish Pacific Group Ltd

	Options held at 1 July 2015	Options granted during the year	Options held at 30 June 2016	Exercise price	Options vested	Vested and exercisable	Vested and un-exercisable	Expiry date
Directors								
Mr P Clare	100,000	-	100,000	\$ 1.23	-	-	-	1/07/2020
Mr P Clare	100,000	-	100,000	\$ 2.00	-	-	-	1/07/2020
KMP								
Mr P Langham	2,428,970	-	2,428,970	\$ 1.00	-	-	-	1/07/2020
Mr C Hedge	599,730	-	599,730	\$ 1.00	-	-	-	1/07/2020
Mr C Hedge	200,000	-	200,000	\$ 1.38	-	-	-	1/07/2020
Mr P Green	151,932	-	151,932	\$ 1.00	-	-	-	1/07/2020
Mr P Green	200,000	-	200,000	\$ 1.38	-	-	-	1/07/2020

Vesting conditions are:

- based on the achievement of a certain level of IRR (IRR vesting condition) by the founding shareholders of the Company;
- based on the period of service of the participant or the participant's continuous engagement until a certain date (service-based vesting condition);
- based on a performance target being achieved (performance-based vesting condition);
- a share price vesting condition; and/or
- based on any other matter determined by the Board.

IRR Vesting Condition

An IRR vesting condition is satisfied if, and only if:

- the relevant level of IRR is achieved; or
- the Board determines that the IRR vesting condition is to be treated as satisfied notwithstanding that it may not have been.

Service-based Vesting Condition

A service-based vesting condition is satisfied if:

- the relevant participant is engaged by a Group Company on a continuous basis until the vesting date; or
- the Board determines that the service-based vesting condition is to be treated as satisfied notwithstanding that it may not have been.

Performance-based Vesting Condition

A performance-based vesting condition is satisfied if, and only if:

- the relevant performance target is achieved, as determined by the Board; or
- the Board determines that the performance-based vesting condition is to be treated as satisfied notwithstanding that it may not have been.

Scottish Pacific Group Limited
Directors' report
30 June 2016

Share Price Vesting Conditions

A share price vesting condition is satisfied if, and only if:

- the relevant price is achieved; or
- the Board determines that the share price vesting condition is to be treated as satisfied notwithstanding that it may not have been.

Notwithstanding any other provision of this plan, the Board may waive any vesting condition; and determine that any of the following is satisfied notwithstanding that they may not be.

Issue of shares

Shares were issued to directors and other key management personnel during the year ended 30 June 2016 as listed in the table below.

The following table sets out each director's relevant interest in shares, debentures, and rights in shares or debentures of the Company or a related body corporate as at the date of this report:

Shares held in Scottish Pacific Group Ltd

	1-Jul-15	Shares purchased ^	30-Jun-16	Post year end Options exercised *	Post year end No. of shares sold *	Post year end No. of shares purchased *^	At the date of this report *
Directors							
Mr P Elliott	41,540,544	4,715,908	46,256,452	-	(23,128,226)	230,737	23,358,963
Mr P Clare	100,000	100,000	200,000	40,000	-	-	240,000
Mr S Lipchin (resigned 9 June 2016)	25,000,000	9,488,636	34,488,636	-	(17,244,318)	-	17,244,318
Ms K Onishi	-	-	-	-	-	31,250	31,250
Mr A Love	-	-	-	-	-	31,250	31,250
KMP							
Mr P Langham	1,741,931	255,682	1,997,613	1,100,996	-	-	3,098,609
Mr C Hedge	340,513	0	340,513	230,487	-	-	571,000
Mr P Green	101,197	0	101,197	125,368	-	-	226,565

* *post year end numbers are unaudited*

^ *Shares purchased prior to 30 June 2016 were purchased at an internal valuation. Shares purchased post year end were purchased at market value.*

Shares issued on the exercise of options

There were no ordinary shares of Scottish Pacific Group Limited issued on the exercise of options during the year ended 30 June 2016.

During the financial year there were no share options granted.

The above option plan was in place whilst the Company was a private entity. All options were exercised or cancelled at 13 July 2016. The IPO was an exit event under the plan.

Scottish Pacific Group Limited
Directors' report
30 June 2016

Dividends

There were no dividends declared or paid by the Company during the year ended 30 June 2016. During the year the directors recommended the payment of a dividend of \$0.316 per share franked to 100%. The dividend was conditional upon the IPO of the Company. The dividend was declared and paid to holders of ordinary shares on 13 July 2016.

Earnings per share

	2016	2015
	Cents	Cents
Basic earnings per share	0.11	13.06
Diluted earnings per share	0.10	11.80

Option Plan in place subsequent to year end (unaudited):

A new option plan was put in place on 1 July 2016. Scottish Pacific Group Limited operates an ownership-based scheme for executives and senior employees of the consolidated entity. In accordance with the provisions of the plan, executives and senior employees may be granted options to purchase parcels of ordinary shares at an exercise price of \$3.20 per ordinary share.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options have a life of 5 years and expire on resignation.

The number of options granted is calculated in accordance with the performance based formula which is subject to approval by the Remuneration Committee. The formula rewards executives and senior employees against the extent of the consolidated entity's improvement in earnings per share.

The terms and conditions of share-based payment arrangements affecting remuneration of key management personnel in the current financial year or future financial years are as follows.

Subsequent to year end, an aggregate of 1,322,091 share options were granted to the following directors and key management personnel of the Company and its controlled entities as part of their remuneration.

Issuing entity : Scottish Pacific Group Limited

Directors and senior management	Grant date	Grant date fair value	Number of options granted	Class of shares	Exercise price of option	Vesting Date	Expiry date of options
Mr P Langham	1 July 2016	\$3.20	152,027	Ordinary	\$3.20	1 July 2019	1 July 2021
			152,027	Ordinary	\$3.20	1 July 2020	1 July 2021
			152,027	Ordinary	\$3.20	1 July 2021	1 July 2021
Mr C Hedge	1 July 2016	\$3.20	109,797	Ordinary	\$3.20	1 July 2019	1 July 2021
			109,797	Ordinary	\$3.20	1 July 2020	1 July 2021
			109,797	Ordinary	\$3.20	1 July 2021	1 July 2021
Mr P Green	1 July 2016	\$3.20	43,854	Ordinary	\$3.20	1 July 2019	1 July 2021
			43,854	Ordinary	\$3.20	1 July 2020	1 July 2021
			43,854	Ordinary	\$3.20	1 July 2021	1 July 2021

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Scottish Pacific Group Limited

Directors' report

30 June 2016

Option Plan in place subsequent to year end (unaudited) (continued)

Under the previous (Legacy) LTI scheme, the following shares were issued on the exercise of options subsequent to year end:

Director and Senior management	Number of options exercised	Total Residual Shares Held Post IPO	Value of Residual Shareholding at IPO Price \$
Mr P Clare	40,000	240,000	768,000
Mr P Langham	1,100,996	3,098,609	9,915,549
Mr C Hedge	230,487	571,000	1,827,000
Mr P Green	125,368	226,565	725,008

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company secretaries, and all executive offices of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Company or any related body corporate against a liability incurred as such an officer.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 19 to the financial statements.

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

Scottish Pacific Group Limited
Directors' report
30 June 2016

Non-audit services (continued)

The directors are of the opinion that the services as disclosed in Note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of the audit firm.

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

Corporate Governance Statement

Scottish Pacific Group Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council. A description of the Group's current corporate governance charters can be viewed at:

<https://investors.scottishpacific.com/investors/?page=governancedocuments>

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

On behalf of the directors



Mr P Elliott
Director

29 August 2016

Sydney

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

29 August 2016

Dear Board Members

Scottish Pacific Group Limited

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

As lead audit partner for the audit of the financial statements of Scottish Pacific Group Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Heather Baister
Partner
Chartered Accountants

Scottish Pacific Group Limited

Contents

30 June 2016

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General information

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

Scottish Pacific Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5,
20 Bond Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2016. The directors have the power to amend and reissue the financial statements.

Scottish Pacific Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

		Consolidated	
	Note	2016 \$'000	2015 \$'000
Revenue			
Fee income		48,115	33,456
Interest income		47,612	33,840
Interest expense		(22,504)	(17,310)
		25,108	16,530
Net revenue		73,223	49,986
Expenses			
Employee benefits expense		(27,659)	(20,311)
Office & administration expense		(12,884)	(7,704)
Professional fees		(20,709)	(1,951)
Bad & doubtful debts expense		(2,252)	(1,145)
Depreciation & amortisation expense		(2,998)	(533)
Operating profit		6,721	18,342
Borrowing expense		(6,219)	(4,279)
Profit before income tax expense		502	14,063
Income tax expense	4	(402)	(4,282)
Profit after income tax expense for the year attributable to the owners of Scottish Pacific Group Limited		100	9,781
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	(25)
Foreign currency translation		266	207
Other comprehensive income for the year, net of tax		291	182
Total comprehensive income for the year attributable to the owners of Scottish Pacific Group Limited		391	9,963
		Cents	Cents
Basic earnings per share	28	0.11	13.06
Diluted earnings per share	28	0.10	11.80

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

Scottish Pacific Group Limited
Statement of financial position
As at 30 June 2016

		Consolidated	
	Note	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents	5	16,112	11,762
Restricted cash	6	129,262	58,015
Client receivables	7	745,688	369,348
Current tax asset	4	1,142	-
Other receivables	8	6,450	1,785
Deferred tax	4	5,356	3,441
Property, plant and equipment		2,086	1,348
Intangibles	9	14,416	-
Goodwill	10	148,305	56,054
Total assets		1,068,817	501,753
Liabilities			
Trade and other payables	11	25,164	8,175
Current tax payables	4	-	1,740
Provisions	12	4,196	1,888
Debt facilities	13	812,600	374,106
Borrowings	14	63,711	23,969
Total liabilities		905,671	409,878
Net assets		163,146	91,875
Equity			
Issued capital	15	146,118	75,238
Reserves	16	998	707
Retained profits		16,030	15,930
Total equity attributable to owners of the Company		163,146	91,875

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

Scottish Pacific Group Limited
Statement of changes in equity
For the year ended 30 June 2016

Consolidated	Share capital \$'000	Foreign currency translation reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2014	74,781	417	108	6,149	81,455
Profit after income tax expense for the year	-	-	-	9,781	9,781
Other comprehensive income for the year, net of tax	-	207	(25)	-	182
Total comprehensive income for the year	-	207	(25)	9,781	9,963
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (Note 15)	457	-	-	-	457
Balance at 30 June 2015	<u>75,238</u>	<u>624</u>	<u>83</u>	<u>15,930</u>	<u>91,875</u>
Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2015	75,238	624	83	15,930	91,875
Profit after income tax benefit for the year	-	-	-	100	100
Other comprehensive income for the year, net of tax	-	266	25	-	291
Total comprehensive income for the year	-	266	25	100	391
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (Note 15)	70,880	-	-	-	70,880
Balance at 30 June 2016	<u>146,118</u>	<u>890</u>	<u>108</u>	<u>16,030</u>	<u>163,146</u>

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

Scottish Pacific Group Limited
Statement of cash flows
For the year ended 30 June 2016

		Consolidated	
	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Net fees and interest received from customers (inclusive of GST)		73,672	54,162
Payments to suppliers and employees (inclusive of GST)		(53,096)	(32,178)
		<u>20,576</u>	<u>21,984</u>
Interest and other finance costs paid		(5,502)	(4,278)
Security deposit paid		(2,939)	-
Income taxes paid		(8,274)	(3,452)
		<u>(16,715)</u>	<u>(7,730)</u>
Net cash from operating activities	27	<u>3,861</u>	<u>14,254</u>
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	23	(141,336)	-
Proceeds from / (payments for) client receivables	23	41,690	(80,375)
Payments for property, plant and equipment		(1,245)	(599)
		<u>(100,891)</u>	<u>(80,974)</u>
Net cash used in investing activities		<u>(100,891)</u>	<u>(80,974)</u>
Cash flows from financing activities			
Proceeds from issue of shares	15	70,880	456
Proceeds from lease financing		644	-
Repayment of mezzanine finance		(24,491)	-
(Repayment of) / proceeds from securitised debt	23	(8,192)	67,434
Proceeds from corporate borrowings		114,000	-
Repayment of corporate borrowings		(45,000)	-
Payment of borrowing establishment costs		(6,462)	-
		<u>101,380</u>	<u>67,890</u>
Net cash from/(used in) financing activities		<u>101,380</u>	<u>67,890</u>
Net increase in cash and cash equivalents		4,350	1,170
Cash and cash equivalents at the beginning of the financial year		<u>11,762</u>	<u>10,592</u>
Cash and cash equivalents at the end of the financial year	5	<u><u>16,112</u></u>	<u><u>11,762</u></u>

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies

The information presented in Note 1 is considered relevant to an understanding of the financial statements.

General information

These consolidated financial statements are for Scottish Pacific Group Limited ('the Company' or 'Parent entity') and its controlled entities ('the Group') for the year ended 30 June 2016. These financial statements were approved and authorised for issue by the Board of Directors on 29 August 2016.

The Group embarked on an initial public offering ('IPO') and listed on the Australian Securities Exchange ('ASX') on 13 July 2016, and from that date forward the ordinary shares of the Company were publicly traded. The ASX ticker code is SCO. The Company is incorporated and domiciled in Australia and is a Company limited by shares.

The Company is a for-profit entity for the purpose of preparing financial statements.

Basis of preparation

For the year ended 30 June 2015 the Group's consolidated financial statements were prepared in accordance with Australian Accounting Standards - Special Purpose Financial Statements as issued by the Australian Accounting Standards Board (AASB).

For the year ended 30 June 2016 the Group prepared general purpose financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. In addition to the recognition, classification and measurement principles previously complied with, these also comply with the disclosure and presentation principles for both the current year and the comparative period.

In accordance with AASB 1 'First time adoption of Australian Accounting Standards' the Group has adopted all relevant AASB standards for the year ended 30 June 2016 and the comparative period ended 30 June 2015. No recognition, classification or measurement adjustments to the comparative balances have been noted as a result of the first time application of Australian Accounting Standards.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Critical accounting estimates

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

Compliance with IFRS

For the year ended 30 June 2016 the consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and consequently the amounts in the directors' report and the financial statements are rounded, that fact must be disclosed in the financial statements or the directors' report.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 22.

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2016 and the results of all subsidiaries for the year then ended. Scottish Pacific Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Interest Income

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

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

Fee Income

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

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

Other revenue

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

Income tax

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

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

Deferred Tax

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

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

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

Tax consolidation

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

Nature of tax funding arrangements and tax sharing arrangements

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

Cash and cash equivalents

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

Client receivables

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

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

The Group's secured client receivables are securitised and funded via one of the Scottish Pacific Benchmark Master Trust, the Scottish Pacific New Zealand Trust, the Scottish Pacific (BFS) Warehouse Trust 2016 or the Scottish Pacific (Paringa) Warehouse Trust 2016. The Group and the Company continue to be exposed to risks and benefits of the client receivables and accordingly these continue to be recognised in their own financial statements.

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

All receivables are assessed for indicators of impairment on a monthly basis and are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivable, the estimated future cash flows of the receivable have been affected.

Client receivables are assessed individually and on a collective basis. Receivables may be assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The client receivables carrying amount is reduced through the use of an allowance account. When a client receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

The Group derecognises a receivable when the contractual rights to the cash flows from the asset expire, or when it transfers the receivable and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a receivable, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

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

Customer relationships

Customer relationships that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their expected finite life of three years.

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

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

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

Trade and other payables

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

Debt Facilities and Borrowings

Debt facilities consist of limited recourse secured borrowing facilities obtained by the Group for the purpose of funding its client receivables.

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

Finance costs

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

Interest expense is recognised in the profit and loss using the effective interest rate method. Interest cost related to debt facility is recognised as Interest expense. Interest costs in respect to borrowings are recognised as Borrowing costs.

Provisions

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

Short-term employee benefits

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

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Other long-term employee benefits

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

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

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

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

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

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

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Dividends

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

Business combinations

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

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

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

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Scottish Pacific Group Limited by the weighted average number of ordinary shares outstanding during the financial year adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Amended Disclosures

Following the adoption of AASB 1 the Group's financial statements have been amended to provide more relevant presentation of financial information in a manner comparable to the presentation adopted in the prospectus issued by the Company in June 2016.

Specifically the Group has amended the presentation of the statement of financial position and the statement of profit and loss as follows:

Statement of financial position

- presented the statement of financial position in the order of liquidity of assets and liabilities;
- reflected the offset of trade receivables and trade payable to disclose the net amount owed by clients (2015 trade receivables (less provision for impairment): \$726,000,705, 2015 trade payables: \$357,304,187);
- separately disclosed debt facilities of the securitisation warehouses and the Group's corporate debt; and separately identified cash balances in accounts held by the Group or the limited-recourse funding vehicles (restricted cash).

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

Amended Disclosures

Statement of profit and loss

Reclassified revenue and expense items in the statement of profit and loss to present:

- Fee income which consists primarily of the Group's share of management fee income distributed from the limited-recourse funding vehicles where the Group holds the junior notes. This management fee income reflects fees charged on invoices factored or discounted and other services
- net interest income primarily consists of the Group's share of net interest income distributed from the limited-recourse funding vehicles (being funding vehicle net interest income less trust related expenses) where the Group holds the junior notes.
- borrowing costs which consist of the interest expense associated with the corporate debt facilities provided by third party financiers. It does not reflect the cost of borrowing via limited-recourse funding vehicles used to fund the debtor financing operations of the Group which is disclosed separately as part of net interest income.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 'Financial Instruments: Recognition and Measurement'

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 15 'Revenue Recognition'

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue.

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

AASB 15 'Revenue Recognition' (continued)

For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 117 'Leases'

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective Notes) within the next financial year are discussed below.

Provision for impairment of client receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position. For further information on credit risk, reference should be made to the Financial instruments Note 18.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related amortisation charges for its finite life intangible assets. The useful lives could change significantly as a result of market developments or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives.

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Goodwill and customer relationships

The Group tests goodwill at least annually and regularly reviews customer relationships to determine if events or changes in circumstances indicate impairment in accordance with the accounting policy stated in Note 1. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the weighted average cost of capital and growth rates of the estimated future cash flows.

Disclosure and Consolidation of Interests in Other Entities

Funding for debtor finance products and the Group's other products is provided to members of the Group through the use of securitisation structures. Under each securitisation structure, debtor receivables are originated by the Group or assigned to the Group by the Group's clients and are then sold by the Group to a special purpose vehicle (funding vehicle) on an ongoing basis. Funds from the sale of the receivables to the funding vehicle are then paid by the Group to its clients (client funding amount).

The funding vehicles fund the purchase of these receivables by issuing notes or borrowing from their funding sources. Senior notes are issued to, or loans are advanced by, the providers of the senior facilities, while junior notes are issued to a separate special purpose vehicle (mezzanine vehicle) or to the Group. These junior notes are "first loss" capital and are subordinated to the senior notes or senior loans.

The mezzanine vehicle raises funds via loans from financiers and issues junior notes to the Group. The junior notes owned by the Group are subordinated to the loans made by third party mezzanine facility financiers.

The Group relies on three limited-recourse senior facilities to fund client funding amounts to its clients via the funding vehicles. Each senior facility has a limit on the amount of funding that it can provide at any one time. The Group maintains a conservative buffer between the funds it has provided and the limit of each senior facility so that it does not run out of funding capacity to continue to fund the origination of receivables.

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

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into two operating segments:

- Debtor Finance Credit provided to clients through a range of options including factoring, invoice discounting and more specialised products. This segment encompasses operation of the Group and the four limited recourse funding vehicles.
- Trade Finance Cross-border transactions through Tradeline and Import/Export Finance which are not funded through one of the limited recourse funding vehicles.

These operating segments are based on the internal reports that are reviewed and used by the CEO Peter Langham (who is identified as the Chief Operating Decision Maker ('CODM') in assessing performance and in determining the allocation of resources of the Group. There is no aggregation of operating segments.

The CODM reviews profit before tax. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Geographic and Customer segments

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 3. Operating segments (continued)

	Debtor Finance \$'000	Trade Finance \$'000	Total \$'000
2016			
Revenue			
Management fees	43,586	4,529	48,115
Net Interest Income	25,399	(291)	25,108
Total revenue	<u>68,985</u>	<u>4,238</u>	<u>73,223</u>
Expenses			
Employee benefits expense	(25,774)	(1,885)	(27,659)
Office and administration expense	(11,926)	(958)	(12,884)
Professional fees	(20,527)	(182)	(20,709)
Bad and doubtful debts expense	(2,060)	(192)	(2,252)
Depreciation and amortisation	(2,980)	(18)	(2,998)
Borrowing costs	(6,219)	-	(6,219)
Profit/(loss) before income tax benefit	<u>(501)</u>	<u>1,003</u>	<u>502</u>
Income tax expense			(402)
Profit after income tax benefit			<u>100</u>
Assets			
Segment assets	1,058,399	10,418	1,068,817
Total assets			<u>1,068,817</u>
Liabilities			
Segment liabilities	902,600	3,071	905,671
Total liabilities			<u>905,671</u>
	Debtor Finance \$'000	Trade Finance \$'000	Total \$'000
2015			
Revenue			
Management fees	29,263	4,193	33,456
Net interest income	16,773	(243)	16,530
Total revenue	<u>46,036</u>	<u>3,950</u>	<u>49,986</u>
Expenses			
Employee benefits expense	(18,725)	(1,586)	(20,311)
Office and administration expense	(7,257)	(447)	(7,704)
Professional	(1,184)	(767)	(1,951)
Bad and doubtful debts expense	(915)	(230)	(1,145)
Depreciation and amortisation	(528)	(5)	(533)
Borrowing costs	(4,279)	-	(4,279)
Profit before income tax expense	<u>13,148</u>	<u>915</u>	<u>14,063</u>
Income tax expense			(4,282)
Profit after income tax expense			<u>9,781</u>
Assets			
Segment assets	496,155	5,598	501,753
Total assets			<u>501,753</u>
Liabilities			
Segment liabilities	407,756	2,122	409,878
Total liabilities			<u>409,878</u>

Scottish Pacific Group Limited
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Note 4. Income tax

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	6,058	4,308
Deferred tax - origination and reversal of temporary differences	(5,656)	(95)
Reclassification of prior period balance	-	69
	<u>402</u>	<u>4,282</u>
Aggregate income tax expense/(benefit)		
	<u>402</u>	<u>4,282</u>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(5,656)	(95)
	<u>(5,656)</u>	<u>(95)</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax (expense)/benefit	502	14,063
	<u>502</u>	<u>14,063</u>
Tax at the statutory tax rate of 30%	151	4,219
	<u>151</u>	<u>4,219</u>
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Difference in overseas tax rates	(30)	-
Entertainment expenses	122	158
Adjustment recognised for prior periods		(95)
Acquisition costs related to share capital	159	-
	<u>159</u>	<u>-</u>
	<u>402</u>	<u>4,282</u>
	<u>402</u>	<u>4,282</u>
<i>Deferred tax asset</i>		
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Impairment of client receivables	1,593	907
Provisions	2,101	1,490
Accrued expenses	1,780	346
Capital costs IPO & other	2,839	-
Borrowing costs	1,375	514
Unrealised foreign exchange (gains) / losses	(7)	184
Intangible client relationships	(4,325)	
	<u>(4,325)</u>	<u></u>
Deferred tax asset	<u>5,356</u>	<u>3,441</u>
	<u>5,356</u>	<u>3,441</u>
<i>Movements:</i>		
Opening balance	3,441	3,346
Credited to profit or loss	5,656	95
Additions through business combinations (Note 23)	1,205	-
Deferred tax liability arising on acquisition of intangible assets	(4,946)	-
	<u>(4,946)</u>	<u>-</u>
Closing balance	<u>5,356</u>	<u>3,441</u>

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	Consolidated	
	2016	2015
	\$'000	\$'000
Note 4. Income tax (continued)		
<i>Income tax refund due</i>		
Income tax refund due	1,142	-

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Provision for income tax</i>		
Provision for income tax	-	1,740

Note 5. Cash and cash equivalents

	Consolidated	
	2016	2015
	\$'000	\$'000
Cash at bank	16,112	11,762

Note 6. Restricted cash

	Consolidated	
	2016	2015
	\$'000	\$'000
Trust cash - operating accounts	74,203	26,259
Trust cash - collection accounts	50,828	30,464
Security deposits held against bank guarantees	4,231	1,292
	129,262	58,015

Restricted cash represents funds held in bank accounts that may only be utilised by the trustee of the securitised funding vehicle.

Trust cash - operating accounts represents funds held in the name of the trustee used for the operation of the securitised funding vehicle. Trust cash - collection accounts represents funds held in banks accounts in the name of the Group over which the trustee holds a security interest and which will be transferred to the trust cash - operating accounts the following business day.

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Note 7. Client receivables

	Consolidated	
	2016	2015
	\$'000	\$'000
Client receivables	750,997	372,502
Less: Provision for impairment of client receivables	(5,309)	(3,154)
	<u>745,688</u>	<u>369,348</u>

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2016	2015
	\$'000	\$'000
Collective Provision		
Opening balance	1,990	1,716
Additional provisions recognised	466	274
	<u>2,456</u>	<u>1,990</u>
Closing balance of Collective provision		

	Consolidated	
	2016	2015
	\$'000	\$'000
Specific Provision		
Opening balance	1,164	1,268
Additional provisions recognised	2,378	758
Receivables written off during the year as uncollectable	(364)	(862)
Unused amounts of provisions released	(325)	-
	<u>2,853</u>	<u>1,164</u>
Closing balance of Specific provision		
Closing Balance of provision for impairment	<u>5,309</u>	<u>3,154</u>

The provision for impairment comprising both specific provisions and a collective provision is assessed monthly for indicators of impairment.

Note 8. Other receivables

	Consolidated	
	2016	2015
	\$'000	\$'000
Other receivables	3,366	1,170
Prepayments	3,084	615
	<u>6,450</u>	<u>1,785</u>

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Note 9. Intangible Assets

	Consolidated	
	2016	2015
	\$'000	\$'000
Client relationships - at cost	16,527	-
Less: Accumulated amortisation	(2,111)	-
	<u>14,416</u>	<u>-</u>

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Balance at 1 July	-	-
Additions through business combinations (Note 23)	16,527	-
Amortisation expense	(2,111)	-
Balance at 30 June	<u>14,416</u>	<u>-</u>

Client relationships are amortised over a 3 year period which is considered to represent the identifiable life of the relationships acquired given historical customer churn rates and the expected life of existing client facilities.

The Group's intangible assets comprise of finite life customer relationships recognised as a result of the acquisition of BFS and GE. The Group amortises intangible assets using the straight line method over a 3 year period, being management's best estimate of customer retention periods based on historical information.

Key valuation assumptions used in determining value on acquisition

Acquisition	BFS	GE
Forecast period	3 years	3 years
Average revenue growth rate	9.3%	7%
Discount rate	10.4%	10.4%

Assumption explanation	Approach in determining value
Forecast period	The forecast period is the period over which management consider forecasting most reliable (and is consistent with the Group's approach to forecasting).
Average revenue growth rates	This is based on historical revenue growth in the market over the 3 year period when considering past performance.
Discount rate	Reflects specific risks relating to the industry and the Group.

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Note 10. Goodwill

	Consolidated	
	2016	2015
	\$'000	\$'000
Goodwill	148,305	56,054

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Balance at 1 July	56,054	56,054
Additions through business combinations (Note 23)	92,251	-
Amortisation expense	-	-
Balance at 30 June	148,305	56,054

The Group comprises of two operating segments, being Debtor finance and Trade finance. Goodwill has been allocated to the debtor finance segment to which all acquisitions relate with shared support services being allocated across all operations.

The recoverable amount of this segment is determined based on a fair value less cost of disposal and adjusted for the impact of Trade finance. The assumptions to calculate the fair value less cost to sell are as follows:

- IPO share price: \$3.20
- Total number of shares on issue: 136.6 million shares
- Transaction costs: 10%

As per Note 26, given the successful IPO on 13 July 2016, the directors believe that any reasonable change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Note 11. Trade and other payables

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade payables - Debtor Finance	4,036	652
Trade payables - Trade Finance	2,892	907
Lease incentive payable	735	670
Other payables	17,501	5,946
	25,164	8,175

Other payables includes \$8.0m of accrued costs for transaction, integration and restructure costs and IPO related costs.

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Note 12. Provisions

	Consolidated	
	2016	2015
	\$'000	\$'000
Provision for annual leave	1,797	875
Provision for long service leave	1,299	789
Provision for make good	338	224
Provision for onerous leases	762	-
	<u>4,196</u>	<u>1,888</u>

Movements in provisions

Movements in each class of provision during the current financial year are set out below:

	Provision Annual Leave \$'000	Provision Long Service Leave \$'000	Provision Make Good \$'000	Provision Onerous Leases \$'000
2016				
Carrying amount at the start of the year	875	789	224	-
Additional provisions recognised	1,238	1,116	-	762
Acquired through business combinations (Note 23)	987	409	255	-
Payments	(1,303)	(1,015)	(141)	-
	<u>1,797</u>	<u>1,299</u>	<u>338</u>	<u>762</u>

	Provision Annual Leave \$'000	Provision Long Service Leave \$'000	Provision Make Good \$'000	Provision Onerous Leases \$'000
2015				
Carrying amount at the start of the year	817	845	379	-
Additional provisions recognised	925	(4)	(63)	-
Acquired through business combinations (Note 23)	-	-	-	-
Payments	(867)	(52)	(92)	-
	<u>875</u>	<u>789</u>	<u>224</u>	<u>-</u>

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Note 13. Debt facilities

	Consolidated	
	2016	2015
	\$'000	\$'000
Limited recourse facilities	812,600	374,106

Limited recourse facilities are secured against trade receivables assigned by clients.

Reference should be made to Note 18 for further information on financial instruments.

Note 14. Borrowings

	Consolidated	
	2016	2015
	\$'000	\$'000
Loan facility	63,067	23,969
Secured loan	644	-
	63,711	23,969

Refer to Note 18 for further information on financial instruments.

The loan facility is secured against collateral comprising the Group's present and after-acquired property including cash and the Group's residual interest in funding vehicles.

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

Note 15. Issued capital

	Consolidated			
	2016	2015	2016	2015
	Shares	Shares	\$'000	\$'000
A Class shares - fully paid	112,358,765	75,138,030	146,118	75,238

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Note 15. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 July 2014	74,781,103	74,781
Issue of Class A ordinary shares	Various	356,927	457
Balance	30 June 2015	75,138,030	75,238
Issue of Class A ordinary shares	23 July 2015	34,091	60
Issue of Class A ordinary shares	31 December 2015	28,330,654	49,862
Issue of Class A ordinary shares	22 June 2016	8,855,990	20,958
Balance	30 June 2016	<u>112,358,765</u>	<u>146,118</u>

Ordinary shares

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

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

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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

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

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

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

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Note 16. Reserves

	Consolidated	
	2016	2015
	\$'000	\$'000
Foreign currency reserve	890	624
Hedging reserve - cash flow hedges	-	(25)
Share-based payments reserve	108	108
	<u>998</u>	<u>707</u>

Note 17. Dividends

There were no dividends paid by the Company during the year ended 30 June 2016 (2015 Nil). Prior to year end the directors recommended the payment of a dividend of \$0.316 per share franked to 100%. The dividend was subject to the IPO of the Company, which occurred on 13 July 2016. The dividend of \$36.3m was declared and paid on this date, and was payable to holders of ordinary shares in the Company as at 13 July 2016.

Franking credits

	Consolidated	
	2016	2015
	\$'000	\$'000
Franking credits available at the reporting date based on a tax rate of 30%	24,354	6,219
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>24,354</u>	<u>6,219</u>

The balance of franking credits include \$8.5m in respect to franking credits acquired through the acquisition of Scottish Pacific (BFS) Pty Limited that are only available to non-resident shareholders.

Note 18. Financial instruments

Financial risk management objectives

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

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

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Note 18. Financial instruments (continued)

Credit risk

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

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

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Collateralisation of client receivables		
Clients assigned receivables *	1,533,603	726,000
Client advances	(787,915)	(356,652)
	<u>745,688</u>	<u>369,348</u>

* Client assigned receivables are disclosed net of provision for impairment that is inclusive of credit risk fair value adjustments arising on acquisition

Capital Management

The Group's objectives in managing its capital are the safeguarding of the Group's ability to continue as a going concern, maintain the support of its investors and other business partners, support the future growth initiatives of the Group and maintain an optimal capital structure to reduce the costs of capital. These objectives are reviewed periodically by the Audit and Risk Committee. The Group defines capital as the total equity reported in the statement of financial position. The Group is not subject to any externally imposed capital requirements.

Note 18. Financial instruments (continued)

Foreign currency risk

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

The Group does not currently hedge its capital invested in the overseas operations, which is immaterial, thereby accepting the foreign currency translation risk on invested capital.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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

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

The Group has a supportive and diversified funding model underpinned by longstanding funding relationships with major banks and currently comprises of a mix of warehouse facilities, mezzanine debt, corporate debt and balance sheet cash.

Market Risk

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

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

The impact of potential increase/decrease in borrowing costs per annum in the event of a +/- 10bps change in variable interest rates would be immaterial to net profit before tax.

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Note 18. Financial instruments (continued)

Liquidity risk

The characteristics of receivables that may be funded through the senior facilities are pre-agreed with the financiers. The majority of the Group's liabilities represent borrowings through warehouse facilities in the funding SPVs. The funding arrangements are as follows:

Financier	Senior Facility 1	Senior Facility 2	Senior Facility 3	Mezzanine Debt Provider	Corporate Debt Provider
Facility Type	Warehouse facility	Warehouse facility	Warehouse facility	Mezzanine Debt	Corporate Debt
Facility Since years/History	2005, 10+ years	2005, 10+ years	2016, New Financier	2016, New Financier	2016, New Financier
Expiry Date of the facility	Aug-17	Jun-18	May-20	Jun-19	Dec-18
Facility Limit	\$535m	\$250m	\$300m	\$60m	\$80m
Aggregate Drawn balance as at 30 Jun 2016		\$767.6m		\$45.0m	\$69.0m
Aggregate Undrawn balance as at 30 Jun 2016		\$317.4m		\$15.0m	\$11.0m [^]

[^] The corporate debt facility limit and drawn amount was reduced by \$10.0m as forecast in the prospectus from proceeds of the IPO subsequent to the balance date. The undrawn balance at the date of the signing of these financial statements is \$11.0m.

The Group's assets are primarily funded through warehouse facilities. Financing (senior facilities) for two of the warehouse facilities are provided by two of Australia's major banks and the third senior facility is provided by a global investment bank. Warehouse facilities of the Group are sourced through the funding SPVs. The warehouse facility is secured against the book of loan assets created by the factoring, invoice finance debtors and trade finance clients. The warehouse facility is re-set on a monthly basis, with daily requirements met by an overdraft facility. The Group aims to have sufficient undrawn capacity in its warehouse facilities to ensure it can continue to fund new lending commitments at all times, which it manages by refinancing warehouse funding on a regular, programmatic basis. The characteristics of receivables that may be funded through the senior facilities are pre-agreed with the financiers. Provided that there are sufficient eligible factoring and invoice finance receivables to secure the facility, no repayment is required until the various warehouse facility expiry date.

Covenants

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

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Note 18. Financial instruments (continued)

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

Under the SPV arrangements, recourse is limited to the assets of the relevant SPV to which the borrowing relates and the repayment profile of the borrowings is matched to the repayments collected from the client receivables. Given the limited recourse nature of these borrowings \$812.6m (2015: 374.1m) have not been included in the table below.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
2016					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	25,164	-	-	-	25,164
<i>Interest-bearing - variable</i>					
Borrowings	4,738	4,738	71,435	-	80,911
Total non-derivatives	29,902	4,738	71,435	-	106,075
	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
2015					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	8,175	-	-	-	8,175
<i>Interest-bearing - variable</i>					
Borrowings	24,491	-	-	-	24,491
Total non-derivatives	32,666	-	-	-	32,666

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

The increase in trade and other payables arises from business growth and the accrual of costs associated with, the acquisition and integration of new businesses, establishment of new SPVs and the IPO. These costs were substantially incurred immediately prior to but remained unpaid at balance date

Borrowings under a mezzanine finance facility at 30 June 2015 were repaid on 31 December 2015 from proceeds of the current borrowing facility.

Fair value measurement

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

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Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by , the auditor of the Group:

	Consolidated	
	2016	2015
	\$	\$
<i>Audit services -</i>		
Audit or review of the financial statements	514,500	197,400
<i>Other services -</i>		
Due diligence - IPO	1,315,528	-
	<u>1,830,028</u>	<u>197,400</u>

Note 20. Commitments

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,271	1,581
One to five years	6,246	6,028
More than five years	-	1,422
	<u>9,517</u>	<u>9,031</u>

Note 21. Related party transactions

Parent entity

Scottish Pacific Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 24.

Transactions with related parties

SP Tradeline (International) Limited

SP Tradeline (UK) Limited ("Scottish Pacific UK") and Scottish Pacific Hong Kong have entered into a paying and collecting agency agreement with SP Tradeline (International) Limited ("Scottish Pacific International"). The directors and shareholders of Scottish Pacific International are Craig Michie and Ed Bracey, being the directors of Scottish Pacific Hong Kong and Scottish Pacific UK respectively, and employees of the Group. Under the agency agreement, Scottish Pacific Tradeline (International) Limited has been appointed as the agent of Scottish Pacific Trade (HK) Limited and SP Tradeline (UK) Limited to maintain and manage the UK bank accounts of Scottish Pacific Trade (HK) Limited and SP Tradeline (UK) Limited (the Trust Accounts). All monies in each trust account are held on trust for Scottish Pacific Trade (HK) Limited and SP Tradeline (UK) Limited.

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Note 21. Related party transactions (continued)

Next Athleisure Facility with the Group

Scottish Pacific provides a debtor financing facility to Trend Imports Pty Ltd (Trend Imports). Trend Imports is a subsidiary of Next Athleisure Pty Ltd, which is a company of which Patrick Elliott is a director and Next Capital is a majority shareholder. The facility is on standard terms that would ordinarily apply to clients of the Group. Neither Patrick Elliott nor Next Capital have any direct involvement in matters concerning that facility for either Trend Imports or the Group.

Steelforce Australia Facility with the Group

The Group is also proposing to enter into a debtor finance facility with Steelforce Australia Limited. Steelforce Australia is a Company of which Patrick Elliott is a director and Next Capital is a majority shareholder. The facility will be on standard terms that would ordinarily apply to clients of the Group. Neither Patrick Elliott nor Next Capital will have any direct involvement in matters concerning that facility for either Steelforce Australia Limited or the Group.

Receivable from and payable to related parties

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

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 22. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2016	2015
	\$'000	\$'000
Profit/(loss) after income tax	38,411	(30)
Total comprehensive income	38,411	(30)
<i>Statement of financial position</i>		
	Parent	
	2016	2015
	\$'000	\$'000
Total current assets	9,127	667
Total assets	208,271	76,580
Total current liabilities	3,059	1,576
Total liabilities	24,005	1,576
Equity		
Issued capital	146,118	75,238
Share-based payments reserve	108	108
Retained profits/(accumulated losses)	38,040	(342)
Total equity	184,266	75,004

Scottish Pacific Group Limited
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Note 22. Parent entity information (continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had guarantees in relation to the debts of its subsidiaries as at 30 June 2016 arising from the Deed of Cross Guarantee and the Corporate Debt Borrowings.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015

Significant accounting policies

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

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity. No indicators of impairment have been identified in the payment of dividends by subsidiaries.

Note 23. Business combinations

During the financial year, the consolidated entity undertook three business combinations.

On 31 December 2015 the Group acquired 100% of the ordinary shares of Bibby Financial Services Pty Limited for the total consideration of \$120.3m. This is an Australasian debtor finance business which will operate alongside the Group's existing operations. The business was acquired to re-enforce the Group's position as the leading Australasian, non-bank, debtor financing business. The acquisition also provides increased scale which will enhance larger funding capacity as well as cost synergy opportunities. The goodwill of \$86.7m represents both the strategic and valuation benefits to the Group. The acquired business contributed \$17.0m in net revenues and \$4.9m profit after tax to the Group for the period from 1 January to 30 June 2016. If Bibby Financial Services had been acquired at 1 July 2015, it would have contributed \$38.4m in net revenues and profit after tax of \$8.4m. This is an estimate by management, given the business previously operated on a December financial year end.

On 3 May 2016 the Group acquired the debtor finance business of GE Commercial in Australia and New Zealand ("GE Debtor Finance") from Bain Capital for \$23.9m. This is an Australasian debtor finance business which will be integrated into the Groups' existing operations. The acquisition provides increased scale which will enhance larger funding capacity as well as cost synergy opportunities. The goodwill of \$5.3m represents both the strategic and valuation benefits to the Group.

The acquired business contributed \$0.9m in net revenues and \$0.3m in profit after tax to the Group for the period from 3 May to 30 June 2016. Management are unable to provide a full year financial result for the business due to insufficient data made available. However, refer to the 2016-17 forecast in the Groups' prospectus as a guide.

On 27 May 2016 the Group acquired the debtor finance business of Suncorp-Metway Limited ("Suncorp") for the book value of the client receivables being \$30.1m. Of this amount 90% was funded by a securitised funding vehicle with the Group providing a \$3.0m contribution. This is an Australasian debtor finance business which will be integrated into the Group's existing operations. The acquisition provides increased scale which will enhance larger funding capacity as well as cost synergy opportunities. The goodwill of \$0.2m represents both the strategic and valuation benefits to the Group. The acquired business contributed \$0.2m net revenues and \$0.1m profit after tax to the Group for the period from 27 May to 30 June 2016. Management are unable to provide a full year financial result for the business due to insufficient data made available. However, refer to the 2016-17 forecast in the Group's prospectus as a guide.

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Note 23. Business combinations (continued)

Details of the acquisition are as follows:

	Bibby Fair value \$'000	GE Fair value \$'000	Suncorp Fair value \$'000
Cash and cash equivalents	5,893	-	-
Client receivables	209,554	180,544	29,892
Other receivables	162	-	-
Plant and equipment	132	-	-
Customer relationships	11,895	4,632	-
Provision for income tax	(711)	-	-
Deferred tax liability	(2,364)	(1,390)	-
Employee benefits	(1,397)	-	-
Accrued expenses	(3,231)	-	-
Provision for make good	(255)	-	-
Debt facilities	(185,990)	(165,287)	(27,100)
Net assets acquired	33,688	18,499	2,792
Goodwill	86,655	5,376	220
Acquisition-date fair value of the total consideration transferred	<u>120,343</u>	<u>23,875</u>	<u>3,012</u>
Representing:			
Cash paid or payable to vendor	120,343	23,875	3,011
Less: cash and cash equivalents	(5,893)	-	-
Net cash used	<u>114,450</u>	<u>23,875</u>	<u>3,011</u>
Acquisition costs expensed to profit or loss	<u>554</u>	<u>5,899</u>	<u>332</u>

Gross client receivables of \$426.8m and a credit adjustment for impairment of \$6.8m have been acquired and recognised at a fair value of \$419.9mm.

Reconciliation to statement of cash flows

The statement of cash flows presents movements in the balance sheet net of the increases arising from the above acquisitions. This presentation is apparent with respect to the aggregate increases in client receivables of \$376.3m and debt facilities of \$438.5m in the balance sheet. The related movements in the statement of cash flows for client receivables and securitised debt are presented net of the above acquisitions.

Scottish Pacific Group Limited
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30 June 2016

Note 24. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Tartan Bidco Pty Ltd	Australia	100.00%	100.00%
Scottish Pacific Holdings Pty Ltd	Australia	100.00%	100.00%
Scottish Pacific Business Finance Pty Ltd	Australia	100.00%	100.00%
Benchmark Debtor Finance Pty Ltd	Australia	100.00%	100.00%
Scottish Pacific Trade Pty Ltd	Australia	100.00%	100.00%
Scottish Pacific (BFS) Pty Ltd	Australia	100.00%	-
Integral Collections Pty Ltd	Australia	100.00%	-
Scottish Pacific Business Finance (NZ) Ltd	New Zealand	100.00%	100.00%
Scottish Pacific Business Finance Admin. (NZ) Ltd	New Zealand	100.00%	100.00%
Scottish Pacific Trade (HK) Ltd	Hong Kong	100.00%	100.00%
SP Tradeline (UK) Ltd	United Kingdom	100.00%	100.00%

On 31 December 2015 the Group acquired 100% of the ordinary shares of Bibby Financial Services Pty Limited and Integral Collections Pty Limited. For further details refer to Note 23.

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

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

During the year following a review of the Group's funding and operations, new trust entities were established to support the Group's expanding operations. Scottish Pacific (BFS) Warehouse Security Trust was established to fund client receivables on 13 April 2016 and operations commenced on 23 June 2016. Scottish Pacific (Paringa) Warehouse Trust 2016 was established to fund client receivables on 13 April 2016 and commenced operating on 3 May 2016. Scottish Pacific (Mezzanine) Funding Trust was established on 22 June 2016, and funded 50:50 by the Group and external lenders commencing on 23 June 2016. The above arrangements are similar to the trust arrangements of the Group's existing client receivables and funding structures.

Note 25. Deed of cross guarantee

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

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

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 25. Deed of cross guarantee (continued)

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

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

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

Note 26. Events after the reporting period

Scottish Pacific Group (ASX: SCO) was admitted to the Official List of the Australian Securities Exchange (ASX) and its ordinary shares commenced trading at midday Wednesday July 13, 2016. More information regarding the acquisitions, including pro forma financial information for the Group as at 31 December 2015, is set out in the prospectus document which was lodged with ASIC in June 2016 as part of the IPO.

The Company's shares were offered at \$3.20 each with total proceeds of \$293.5m raised. The issue of 24.2m new shares raised \$77.3m while the sale of 67.6m existing shares raised \$216.2m representing 65.9% of the Shares on issue after completion of the IPO.

The purpose of the IPO was to provide the Company with access to the capital markets to improve capital management flexibility and capacity to fund future growth initiatives and a liquid market for its shares and an opportunity for others to invest in the Company.

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

The proceeds of the IPO were applied to:

Payment to existing shareholders	\$216.2m
Payment of the pre-IPO dividend to existing shareholders	\$36.3m
Repayment of corporate debt	\$10.0m
Cancellation payment for legacy options	\$12.4m
Payment of the transactions costs associated with the IPO	\$18.6m
	\$293.5m

There were no dividends paid by the Company during the year ended 30 June 2016. Prior to year end the directors recommended the payment of a dividend of \$0.316 per share franked to 100%. The dividend was conditional upon the IPO of the Company, which occurred on 13 July 2016. The dividend of \$36.3m was declared and paid on this date, and was payable to holders of ordinary shares in the Company as at 13 July 2016.

The Group implemented a long term incentive scheme in 2013 after investment funds, advised by Next Capital acquired the Group. This scheme consisted of the grant of options over shares in the Company (exercised legacy options) which were subject to certain vesting conditions which were met on completion of the IPO. The holders of legacy options irrevocably offered to exercise a portion of the legacy options, and accept the cancellation of a portion of their legacy options in return for a cash payment (redeemed legacy options). The Board resolved to accept this offer, which resulted in payments being made and shares being issued on 13 July 2016.

For more information regarding the IPO reference should be made to the prospectus document which was lodged with ASIC in June 2016 as part of the IPO. The prospectus is available on the Company's website.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Scottish Pacific Group Limited
Notes to the financial statements
30 June 2016

Note 27. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax expense for the year	100	9,781
Adjustments for:		
Depreciation and amortisation	887	533
Amortisation of Intangible assets	2,111	-
Provision for bad and doubtful debts	2,251	-
Change in operating assets and liabilities:		
(Increase) / decrease in other receivables	(7,441)	1,159
(Increase) / decrease in deferred tax assets	(4,279)	(77)
Increase / (decrease) in trade and other payables	13,169	564
Increase / (decrease) in provision for income tax	(3,593)	906
Increase / (decrease) in employee benefits	656	1,560
Increase / (decrease) in other operating liabilities	-	(172)
Net cash from operating activities	<u>3,861</u>	<u>14,254</u>

Note 28. Earnings per share

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax attributable to the owners of Scottish Pacific Group Limited	<u>100</u>	<u>9,781</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	89,695,985	74,911,156
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>9,015,427</u>	<u>7,697,667</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>98,711,412</u>	<u>82,608,823</u>
	Cents	Cents
Basic earnings per share	0.11	13.06
Diluted earnings per share	0.10	11.80

Scottish Pacific Group Limited

Directors' declaration

30 June 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June
- 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 25 to the financial statements.

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

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

On behalf of the directors



Mr P Elliott

Director

29 August 2016 Sydney

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

Report on the Financial Report

We have audited the accompanying financial report of Scottish Pacific Group Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 60.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Scottish Pacific Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 20 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Scottish Pacific Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Heather Baister
Partner
Chartered Accountants
Sydney, 29 August 2016