# SFG Australia Limited
# 2013 Annual Report

## Building Australia's best advice business

Money Management
INDEPENDENT DEALER GROUP OF THE YEAR 2013
Shadforth Financial Group

*The Money Management Independent Dealer Group of the Year award recognises that Shadforth is not owned by a financial institution such as a bank or life insurance company. Shadforth is a wholly owned subsidiary of SFG Australia Limited (SFGA).

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# CORPORATE DIRECTORY
**30 JUNE 2013**

| | |
|---|---|
| **Board of directors** | P J Promnitz BSc (Hons), AIAA, FAICD – *Chairman – Independent, non-executive director*<br>E R Dodd BEc (UNE), FCA, FAICD – *Independent, non-executive director*<br>A K Fenning BEc LLB, MBA – *Managing Director*<br>J B Gannon – *Deputy Chairman - Independent, non-executive director*<br>J P Kilkenny BComm, FCA, CFP – *Executive director*<br>G E Maloney BA, AIA, FAICD – *Independent, non-executive director*<br>N Sparks BPharm, MPharm, MBA, GAIC – *Independent, non-executive director* |
| **Company secretary** | L W Y Fox BComm, MBA, CA (NZ) |
| **Principal registered office in Australia** | SFG Australia Limited (ABN 81 006 490 259)<br>Level 18, 50 Bridge Street<br>Sydney NSW 2000<br>Telephone: (02) 9250 1500 |
| **Share register** | Computershare Investor Services Pty Limited<br>GPO Box 2975<br>Melbourne VIC 3001<br>Telephone: 1300 555 159 |
| **Auditor** | PricewaterhouseCoopers<br>Chartered Accountants<br>Darling Park Tower 2<br>201 Sussex Street<br>Sydney NSW 2000 |
| **Bankers** | National Australia Bank Limited<br>Level 22<br>255 George Street<br>Sydney NSW 2000<br><br>St George Bank Limited<br>4 – 16 Montgomery Street<br>Kogarah NSW 2217 |
| **Securities exchange listing** | SFG Australia Limited shares are listed on the Australian Securities Exchange (ASX: **SFW**) |
| **Website address** | www.sfgaustralia.com.au |

# CHAIRMAN'S LETTER TO SHAREHOLDERS

**30 JUNE 2013**

**Dear Shareholder**

On behalf of my fellow directors, I am pleased to present the 2013 SFG Australia Limited ('SFGA') annual report to shareholders. While this is my first report as Chairman of SFGA, I have represented shareholders as a director of SFGA since June 2011 and of predecessor companies continuously since 1997.

### Financial year 2013

The financial year has been one of significant growth for SFGA and its controlled entities ('Group'). Our 2013 results show double-digit earnings growth for the Group.

Whilst performing strongly through organic growth and realising synergies within our vertically integrated business, we have also grown through acquisition to further expand the SFGA business model into the accounting sector.

The Group, in common with the rest of the Australian financial services industry, has experienced a period of intense regulatory change. The scale and breadth of work and associated costs involved to ensure we comply with these changes should not be underestimated. However, we are pleased to report that we successfully implemented phase 1 of the Future of Financial Advice ('FoFA') reforms meeting the 1 July 2013 commencement date.

### Improved dividends

Your Board has determined a final dividend of 1.40 cents a share, fully franked, to be paid on 24 October 2013. This is a total payout ratio of 58% of underlying profit for the year, which is within SFGA's target payout range of 50%-70% of underlying profit. We are pleased to report this is a 30% increase on dividends declared from the underlying profits of financial year 2012.

### Confirming strategic direction

From the outset, the Group's stated strategy has been to grow both organically and through acquisition as the financial services industry continues to experience consolidation. We have maintained our proactive approach to sourcing quality, strategic and value accretive acquisitions of varying sizes. This year's results confirm our overall strategic direction. The addition of Lachlan Partners to the Group in 2013 brings great opportunity to develop a seamless self managed super fund ('SMSF') service and tax offering for our clients. We also completed several tuck-ins through the year to add to our scale.

### Leading advice group

The Group's position as a leading non-aligned financial advice and wealth management firm in Australia, priding itself on the depth of its client relationships and the quality of its people, has also been recently recognised in the market.

I am delighted to report that our leading advice business Shadforth Financial Group was awarded the Independent Dealer Group of the Year for 2013 by industry magazine *Money Management*. This award is a significant milestone in recognising our vision – to be the best advice group in Australia. This recognition can be attributed to our highly qualified and professional financial advisers and their ability to offer solution-based financial advice that is highly valued by our clients.

### Corporate governance

Your Board continues to focus on improving its own performance. In 2013 we have carried out a review of the Board's governance model and have initiated work on succession planning and ensuring that we have the right balance of skills and experience for the future success of SFGA.

### Looking ahead

While 2013 was a period of significant regulatory change and uncertainty in our industry, SFGA is well positioned for the future. Since the business formed in 2006, our seven-year journey to deliver the best advice continues with strategic reinvestment in its infrastructure and advice systems. Organic growth remains a focus and the business has a series of initiatives designed to attract new clients. The improved investment conditions are welcomed, and if sustained, bode well for our clients and their portfolios.

On behalf of my fellow directors, I would like to thank our Managing Director, Mr Tony Fenning, and the entire leadership team. The Board recognises and acknowledges the contribution of SFGA's employees during the year. Our performance is a credit to the commitment and effort of all our people who provide valued services to our clients.

Thank you for your continued support and I look forward to further progress over the year ahead.

Yours sincerely,

**Peter Promnitz**
Chairman
26 September 2013

# MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
## 30 JUNE 2013

**Dear Shareholder**

Financial year 2013 was a year of intense regulatory change for the Australian financial services industry with the implementation of FoFA. It has been a very busy year for the Group as we sought to grow our business and understand operationally, how to meet the changing regulatory requirements.

As our results demonstrate, we continue to deliver earnings growth through a solid result in our businesses, material synergies achieved and acquisitions completed.

In the coming pages, we provide a detailed report on the financial performance of the Group and give a detailed overview of the operations of the company.

**In short**

SFGA has cemented itself as a leading client-focused, quality financial advice and end-to-end wealth management firm. We believe our strong differentiators from the large institutions in the industry shine through. The company is a leader in advice and our client first culture. We are defined by the quality of our financial advisers and the relationships they and our client service teams have with our clients.

We have a strong track record, and our management team has delivered on sourcing, executing and integrating, transforming and tuck in transactions. We maintain our cash capacity with strong operating cash flows and further funding capacity for additional tuck in acquisitions.

We continue to actively canvas appropriate mergers or acquisitions that complement SFGA's strategic direction or expand our capabilities and scale. We are proactive in looking for strategically attractive transactions that can deliver value for our clients, our people and our shareholders.

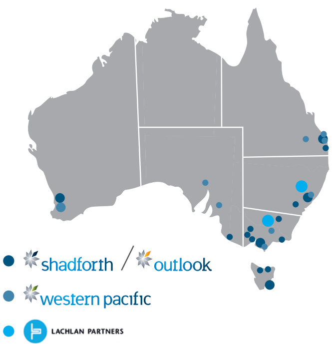
### Our key metrics

| | FY12 | FY13 | |
|---|---|---|---|
| **Underlying NPAT** | 28.6m | 32.5m | Up 14% |
| **Net Operating Revenue** | 118.3m | 134.3m | Up 14% |
| **Market Capitalisation**[1] | 292m | 544m | |
| | | | |
| **FUM** | 4.4bn | 5.0bn | Up 15% |
| **FUAdmin + Managed Portfolios** | 9.3bn | 10.1bn | Up 9% |
| **FUA** | 10.8bn | 12.6bn | Up 15% |

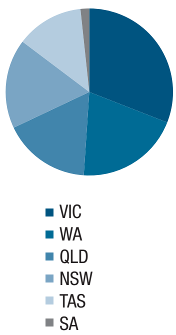
1. FY12 Market Capitalisation quoted assumed a share price of 40 cents, as at 12 September 2012. FY13 Market Capitalisation quoted assumed a share price of 74 cents, as at 6 September 2013.

### Our business today

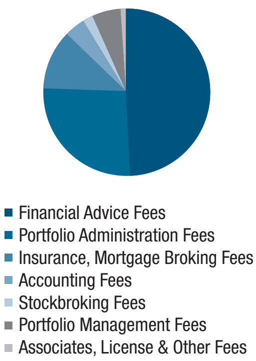
**Unique adviser footprint**




**FY13 Revenue by state**




**FY13 Revenue by service**




We continue to invest in our people and our business. My personal thanks must go to all our hard working people that are industry leaders in their roles as trusted advisers or background supporters to Australian families and businesses.

Yours sincerely,

**Anthony Fenning**
Managing Director
26 September 2013

## Financial year 2013

SFG Australia's results demonstrate good momentum in earnings and solid financial performance, amidst significant regulatory change and modest but improving equity markets.

We made considerable progress on our strategy this year with Lachlan Partners joining the Group. The services required of financial advisers and accountants are converging and the latest government reform is also driving these professions together. Lachlan Partners brings the systems and competencies to build out our accounting strategy and develop an integrated and seamless combined service offering for self-managed super funds and the tax needs for our clients.

Market conditions through FY13 were volatile but improved on the previous year. We and the industry as a whole benefited from the improving domestic and global equity market values. Investor confidence remains soft through the uncertain political times in Australia and volatile global investment markets although we are seeing some signs of improvement. A significant portion of the Group's Operating Revenue was derived from asset based fees (deliberately aligning our own success with that of our clients), which move based on the asset allocation and performance of the clients investments. The ASX All Ordinaries Index monthly average improved 8% on the FY12 monthly average, which has positively impacted the Australian equities allocation of our clients' portfolios.

The Group's clients' funds under advice ('FUA'), administration ('FUAdmin') and management ('FUM') balances at financial year end had improved with positively performing investment markets, with FUA and FUAdmin improving by 16% and 9% on the previous corresponding period ('pcp'), to $12.6 billion and $10.1 billion respectively. The Group's FUM increased by 15% to $5.0 billion largely as a result of the Mosaic managed investment schemes continuing to grow organically, with the launch of the Mosaic Strategic Cash Plus Trust and strong net inflow into the other Strategic Trusts. Total FUAdmin includes $0.6 billion which relates to Managed Portfolios ('MP'). This reflects the new portfolio management and construction services which were introduced to clients during the year.

Net Operating Revenue[1], including share of associates profit, increased 14% on pcp to $134.3 million, and Net Operating Expenses increased by 13% to $86.2 million, generating Operating EBITDA of $48.1 million, up 15% on pcp. The strong result was achieved through continued realisation of revenue and expense synergies from the Snowball / Shadforth merger in June 2011, improving equity markets and contribution from the acquisitions completed during the year.

The acquisitions positively impacting the result included the strategic acquisition of Lachlan Partners effective 1 March 2013. Other smaller acquisitions include:

- Parkside – a general insurance broking practice in Perth – effective 1 October 2012;
- W Corp – a Melbourne-based financial advice practice – effective 31 December 2012; and
- ITS – an accounting and tax practice based in Brisbane – effective 1 February 2013.

Underlying NPAT increased in line with Operating EBITDA, up 14% on pcp to $32.5 million. Underlying NPAT is net profit after tax excluding amortisation and one-off, non-operational items, such as acquisition costs. SFGA considers this to be a meaningful indicator of the underlying performance and ongoing cash generating capability of the Group. Underlying EPS of 4.45 cents per share was up 13%, in line with the increase in Underlying NPAT.

In FY12, reported NPAT and EPS were impacted by the Government's reversal of the Rights to Future Income ('RTFI') legislation. This reversal does not impact the FY13 results but does mean that the Reported NPAT and EPS are not comparable between periods. Excluding the impact of RTFI in FY12, NPAT was up 17% to $24.1 million, and EPS up 17% to 3.30 cents per share.

The Board has determined to pay a final dividend of 1.40 cent per share, fully franked, bringing total dividends for the year to 2.60 cents per share fully franked, up 30% on pcp. This represents a payout ratio of 58% of Underlying NPAT and is consistent with SFGA's payout ratio guidance of 50%-70% of Underlying NPAT.

The dividend is payable on 24 October 2013. The record date will be 26 September 2013.

[1] Non-statutory financial information presented in the Operating and financial review is reconciled to the statutory financial information, prepared in accordance with Australian Accounting Standards, on pages 14 and 15.

As at 30 June 2013, the Group had $25.8 million in cash, net of client monies held in trust, available to fund the final dividend payment and other cash requirements.

During the year, the Group also increased its funding capacity through obtaining a facility with St. George Bank, in addition to the existing National Australia Bank loan facility, to ensure that the Group is well positioned to fund any future acquisitions.

## Operational Update

We made considerable reinvestment in the business through FY13 on infrastructure and productivity improvements to ensure that we have the foundations in place to facilitate further growth and integrate future acquisitions.

During FY13 $5.7 million was reinvested into the business. The reinvestment was made in the following areas:

- the development of finHQ, our online client consolidated reporting system;
- IT infrastructure moving the Group to Cloud technology;
- client and adviser systems improvement;
- migration of clients to better services and products; and
- regulatory reform responses.

The reinvestment in finHQ, IT and client migration were necessary as a pre-requisite to expand our Best Advice journey with our clients into FY14 and beyond. At the heart of the reinvestments are our goals of offering better advice, services and products for our clients, and continued improvement in our overall corporate capabilities.

## Shadforth Financial Group and Outlook Financial Solutions

**Delivering valued outcomes for our clients**

Shadforth Financial Group ('Shadforth') and Outlook Financial Solutions ('Outlook') continued to show benefits from integration of operations and improvements to the client offering.

The Shadforth business has seen early signs of increased client activity and is well positioned to gain from improvements in markets and investor confidence. We continue to offer our existing clients improved service offerings and transition them across to our contemporary service and products.

The Outlook advice business has been expanded to fulfil an increasing demand for member services and scaled advice offerings.

Our professional financial advisers' ability to offer solution-based financial advice that is highly regarded by our clients was recognised when Shadforth was named the Independent Dealer Group of the Year by leading industry magazine Money Management.

This industry award comes after sixteen Shadforth financial advisers were ranked in the Top 50 Financial Planners in the 2013 Australian Financial Review ('AFR') Smart Investor Masterclass. Shadforth also had three financial advisers recognised in the top 10 category.

The annual AFR Smart Investor Masterclass is an exam on technical and strategy issues. The examination aims to assess the technical knowledge and expertise of advisers and the effectiveness with which they apply it to client situations and requirements, in areas such as financial structures, tax, superannuation (including self managed super funds), asset allocation, social security and investment strategies. The exam is in its 15th year.

We place a strong emphasis on ensuring our advisers are highly qualified and take great pride in being at the forefront of our industry – approximately 70% of our financial advisers hold the industry's highest designation as Certified Financial Planners – well above the industry peer average of 23% (based on a July 2013 report by the Australian Securities and Investments Commission on the firms ranked 21 – 50 by number of Authorised Representatives).

A number of practices joined the Group in the last 12 months. Parkside Insurance Brokers, a small, long-established general insurance broking business based in Perth, joined the Group in October. In December, the clients of a quality high net worth financial advice practice based in Melbourne joined Shadforth. The practice had approximately $162m in client funds under advice, predominantly administered on the BT wrap platform.

## Lachlan Partners

**Enhancing the value proposition**

Lachlan Partners joined the Group on 1 March 2013. Lachlan Partners is an integrated accounting, tax, business advisory and financial advice group servicing private companies, professionals, entrepreneurs, family offices, SMSFs and high net worth clients. Lachlan Partners has 59 accountants and financial advisers across offices in Melbourne, Sydney and Brisbane.

This strategic transaction significantly enhances our capability to integrate accounting, tax and business advisory, and allows Lachlan Partners to capitalise on our strength in financial advice and implementation solutions. It also enhances the Group's exposure to SMSF clients, with Lachlan Partners administering approximately 450 SMSFs, and the Group providing advice to more than 2,000 SMSFs.

Since Lachlan Partner's joined the Group, we have been integrating operations including the rationalisation of head office functions, integration and development of the Group's Family Office offering with Lachlan Partners Melbourne team, rolling out the Group's Best Advice model through Lachlan Partners' adviser teams, and further developing the Group's convergence strategy through the introduction of client referrals between advisers and accountants.

## Affiliate and B2B Market

**Leveraging the changing industry dynamic**

During FY13 the Group worked on restructuring its B2B offering. Actuate Alliance Solutions ('Actuate') is a business partnership model for contemporary dealer groups and practices which leverages SFGA's infrastructure, products, services and skills to assist those groups and practices to build client value, productivity and profit into their businesses. Actuate sits alongside the Group's affiliate, licensed model, Western Pacific Financial Group ('Western Pacific').

We recruited industry professional Dan Powell in November 2012 to lead this business area. In coming months, we will be re-launching the third party services business to the industry. Actuate is focused on being a leading choice for independent advisers, practices and dealer groups for advice and dealer services, and portfolio administration and management solutions, allowing a wider group of Australians to benefit from the many years of research and development undertaken to advance our existing clients' future.

Our long standing joint venture relationship with Queensland Teachers Mutual Bank ('QTMB') continues to develop and grow to the mutual benefit of both shareholders. During the year, QTMB successfully migrated clients across to our contemporary service and products, which deliver an improved outcome for the clients, QTMB and the Group.

The Affiliate adviser model comprises the Western Pacific dealer group model, which is differentiated from typical dealer group models in the industry through its retention mechanisms, creating a more sustainable revenue stream for the Group. The Affiliate adviser model comprises 16 practices and 42 client facing advisers nationally, and contributes 6% of the Group's Net Operating Revenue.

Subsequent to year end the Group completed the acquisition of a Western Pacific advice practice based in North Sydney, whose principal adviser joined Shadforth Financial Group in August 2013. This followed the acquisition of the Cleveland, Queensland Western Pacific practice in a previous period. This is a natural solution to facilitate succession planning within the Western Pacific network and provides incremental advice profit margin and cost leverage for the Group.

## Cortex Project Best Advice

**Best Advice is our best practice, continuous improvement hub that seeks to maintain our competitive advantage in the provision of quality advice to our clients**

The Group's 'Cortex Project Best Advice' business is our centre of excellence delivering best practice services to the Group's advice businesses. The team had an integral role in successfully implementing our response to the FoFA regulatory changes.

Working on the implementation of FoFA provided the opportunity to initiate a thorough review of components of our advice process and support tools to ensure that we not only meet our obligations under the new legislation, but also strive to continuously improve our practices. The core components of the changes made included modifying our advice process, revisiting our approved product lists and delivering a Group wide consistent approach to providing fee disclosure statements. We successfully issued our first fee disclosure statements in July 2013.

Best Advice in FY14 will continue to devote substantial resources to ensure that we deliver our fee disclosure obligations seamlessly. Work continues on centralising our client database to ensure that we can accurately aggregate fees and measure the delivery of services to our clients.

The team is also upgrading the adviser network to a leading financial advice software system called XPLAN. This requires transitioning our advisers from the Group's proprietary advice software to XPLAN. This transition will also involve further improvements to our advice processes to increase efficiency and improve service delivery to clients.

## finHQ

**Innovation for our clients' portfolio administration and reporting**

In September 2012 the Group launched finHQ to our clients. It is a scalable and secure web-based portal that provides an access point for our clients to view their financial transactions and reporting in a safe, secured and close to real time website. To date, approximately 7,500 clients have gained access to the portal and these clients also have access to the finHQ client support centre.

Our vision for finHQ is to progressively become the consolidated view of a clients' portfolios, and an online marketplace for other financial products and services, moving the Group ahead in the digital age.

Over the last year finHQ has successfully delivered consolidated client reporting allowing our clients to view a range of reports. Two examples are:

- valuations – showing the client's current holding by unit value; and
- asset allocation – providing an overview by asset class of their portfolio.

In December 2012 we launched our direct share broking service. The broking execution and technology is supported by our outsourcing partners, UBS Securities Australia Limited and IRESS Limited.

Our latest offer, launched in March 2013, was online risk insurance calculators. We provide our clients with access to a panel of personal insurance products and services. We also offer to connect the client to a personal Risk adviser in their area to assist with the underwriting process and required documentation.

You can view this exciting client enhancement at www.finhq.com.au

## Mosaic

**Innovative portfolio solutions experiencing strong growth**

Mosaic Portfolio Advisers Limited ('Mosaic'), the Group's portfolio construction and management business, completed a strategic review of its business in FY13. We decided to resign as Responsible Entity of four managed investment schemes and terminate one sub-scale managed investment scheme. In addition, the suite of diversified funds, and the Mosaic Global Shares Fund were restructured and relaunched to provide our clients with best of breed and cost effective products. The initial response to these enhancements has been positive from both our adviser network and our clients.

During FY13 the business also consolidated the custody and administration of its managed funds under a single global service provider, JPMorgan Chase Bank, N.A. thereby delivering material cost and risk management improvements.

Mosaic experienced strong net inflows in all of its core Strategic Trusts during FY13. Two of the Strategic Trusts delivered 50% improvement in FUM through FY13 with the Mosaic Strategic Fixed Interest Trust reaching $1.1 billion and the Mosaic Strategic International Equity Trust reaching $1.0 billion as at 30 June 2013. Our newest fund, the Mosaic Strategic Cash Plus Trust, launched in November 2012, received over $94 million in net inflows to 30 June 2013.

In July 2012, the Group launched two innovative Managed Portfolio investment solutions: Managed Portfolio Service ('MPS') and the Dynamic Portfolio Update Service ('DPU'). Both MPS and DPU have been specifically developed to comply with the regulatory reforms, and provide convenience, efficiency, risk management and productivity benefits to both clients and advisers.

These Managed Portfolios have a total of $645 million in client funds invested as at 30 June 2013, a solid increase against a total of $267 million invested as at 31 December 2012. The MPS and DPU portfolios are constructed by Mosaic, and administered by the Symetry Endeavour Portfolio Service platform, managed by Colonial First State Custom Solutions, part of the Commonwealth Bank Group.

## Our people

We are at heart a people business and we are very fortunate that our Group has such a breadth and depth of high quality, talented and committed people.

As our business expands the breadth and depth of the skills of our people continues to develop and we welcomed many new additions to our complement during the year.

We continue to have great stability as our key people enthusiastically continue on the "best advice" journey we started when the business formed.

In FY13, the Group modified its financial adviser remuneration scheme which also meets the requirements of phase 1 of FoFA. In the coming year the Group will consider further improvement in this scheme to drive the common goal of excellent service delivery to clients.

All staff are engaged in an annual role review, performance review and personal development program, and we continue to evolve the implementation of these programs each year.

## The Executive Management Team

The Executive Management Team remained stable during the last 12 months but with the addition in November 2012 of Mr John Cowan as Chief Operating Officer for the Group, and in March 2013 of Mr Philip Pezzi as Head of Lachlan Partners. Mr Pezzi is the Managing Director and co-founder of Lachlan Partners.

Below is an overview of the roles and experience of the members of the Executive Management Team.

**Tony Fenning**
*Managing Director*

Mr Fenning has been the Managing Director of SFGA since 26 June 2011. Mr Fenning has over 20 years experience in the financial services industry, having held senior management positions in leading Australian financial services and wealth management companies over this period. Mr Fenning held the position of Managing Director of Shadforth Financial Group Holdings Limited since inception of the company in 2007.

Mr Fenning has a Bachelor of Economics and a Bachelor of Laws (Hons) from Sydney University and a Master of Business Administration from the Australian Graduate School of Management.

**John Cowan**
*Chief Operating Officer*

Mr Cowan joined SFG Australia Limited as Head of Product, Services and Business Acquisitions in May 2012 and was appointed Chief Operating Officer in November 2012. Mr Cowan has been involved in major aspects of the financial services industry for over 25 years. Most recently he was Head of Financial Services for Crowe Horwath Australasia Limited (then WHK Group Limited) where his role was to lead and grow the financial services business, including financial planning, risk and general insurance, lending and finance, and self managed super fund administration.

Prior to Crowe Horwath, Mr Cowan was Group Executive, Customer and Distribution at MBF; General Manager of Financial Services at Insurance Australia Group (IAG), which included leading the development of ClearView Retirement Solutions; and Head of Product Management at St. George Bank after joining as a result of the merger with Advance Bank in November 1996.

Mr Cowan has a Bachelor of Commerce from the University of NSW, majoring in Accounting, Finance and Information Systems, and is a Fellow of Finsia and a member of the Australian Institute of Company Directors.

**Linda Fox**
*Chief Financial Officer and Company Secretary*

Mrs Fox commenced employment with Shadforth Financial Group Holdings Limited in 2007 and is the Chief Financial Officer and Company Secretary of SFGA. Mrs Fox was previously a director, Chief Operating Officer and Company Secretary of Schroder Investment Management Australia Limited, and Chief Financial Officer of Merrill Lynch Private Australia Limited.

Mrs Fox holds a Bachelor of Commerce (Accounting) from the University of Otago, as well as a Diploma of Graduates in Information Systems. She also has a Master of Business Administration (Executive) from the Australian Graduate School of Management and she is a Chartered Accountant (New Zealand).

## The Executive Management Team (continued)

**Nick Bedding**

*Head of Shadforth Financial Group and Outlook Financial Solutions*

Mr Bedding is the Head of Shadforth Financial Group and Outlook Financial Solutions, which are the wholly owned financial advice businesses of the Group. He was formerly the CEO of Shadforths Limited, which was one of the founding firms of Shadforth Financial Group Holdings Limited.

Mr Bedding holds a Masters Degree in Business Administration and was awarded the McCarthy Medal as the top graduate. He was also awarded the ANZ Prize as the top graduate in Australia for the Diploma of Financial Planning from Deakin University. Mr Bedding has a Certificate in Financial Markets from the Securities Institute of Australia, is a Certified Financial Planner, a Senior Associate of the Financial Services Institute of Australasia, a Master of Stockbroking, a member of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management.

**Philip Pezzi**

*Head of Lachlan Partners*

Mr Pezzi is Lachlan Partners' Managing Director and co-founder. He has been in this role since the business formed in October 2004. He is an experienced banking and financial services executive with over 20 years experience in both Australian and international markets.

Prior to Lachlan Partners, Mr Pezzi was the Head of Strategy, Financial Services Australia with National Australia Bank driving business growth and profitability across consumer, business, agribusiness, MLC and third party channels nationally. Prior to that, he held roles with ANZ Bank in the International Banking division working across several Asian markets – Indonesia, Singapore and Hong Kong. Mr Pezzi has also worked with Citibank N.A in the global corporate bank in both Australia and New York.

Mr Pezzi has a Bachelor of Commerce from Swinburne University, majoring in Accounting and Tax. He has completed management and finance programs with the Macquarie Graduate School of Management and the Melbourne Business School. Mr Pezzi is also a member of the Institute of Chartered Accountants.

**David Pitcher**

*Head of finHQ*

Mr Pitcher joined SFGA in 2012 as Head of finHQ. finHQ is an important initiative to develop a client facing interface which combines information from the Group's various portfolio management and administration solutions providers.

Mr Pitcher's career spans 30 years working for global financial services corporations focusing on investments, change management and technology, and included roles with banking, financial advice and investment management organisations. Most recently, David was Head of Business Solutions in the Investments Division of QBE, and prior to that he held roles with Commonwealth Bank, St George Bank and American Express in New York.

## Looking ahead

The Group intends to continue the "best advice" journey and pursue our existing strategy for the foreseeable future, which can be summarised as follows:

- continue to organically grow our established core advice businesses: Shadforth, Outlook and Western Pacific;
- build the Lachlan Partners business and continue to integrate it (both ways) with the existing Group, rolling out self managed superannuation services, tax and accounting and other services over time to the whole Group;
- grow the Actuate business from its current relatively small base to develop further relationships with external adviser groups and institutions;
- deepen and broaden our implementation services including platforms and portfolios through finHQ, Mosaic and insurance businesses;
- continue to explore tuck-in acquisitions and review of larger strategic opportunities as they evolve;
- adapt to the rapidly and continually changing regulatory and competitive environment, client behaviour and demographics and technology and communications infrastructure advances; and
- thoughtfully reinvest in the growth and development of the Group's business platform.

The key financial variables will be our success in the growth of clients, their use of our products and services, industry dynamics in the post FoFA environment potentially putting pressure on ours margin and our successful completion of merger and acquisition activity.

Important business risks and our responses to them are outlined below:

| **Financial market risk** | |
|---|---|
| A significant proportion of the Group's revenue is derived from financial planning and wealth management revenue, of which the majority is linked to the underlying asset value of client portfolios.<br><br>Traditionally, the majority of these assets are invested in portfolios which include a mix of shares in Australian and international markets, cash and fixed interest products. | Adverse market conditions, such as those experienced during the global financial crisis will result in a decline in the value of the underlying client portfolios and consequently result in a decline in revenue earned by the Group.<br><br>Poor consumer sentiment and uncertainty may also result in a decline in assets, which over time may again lead to declining revenues to the Group. |
| **Operational risks and reliance on technology** | |
| The Group is exposed to operational risks including risks arising from process error, fraud, information technology infrastructure and system failure, failure of security and physical protection systems, and unit pricing errors. | The Group endeavours to mitigate operational risks through its compliance procedures and where appropriate obtains insurance to cover these risks, however certain residual risks remain.<br><br>Where appropriate and cost effective, the Group has outsourced the performance of certain business functions which assists in lowering its exposure to such risks. |

## Looking ahead (continued)

### Regulatory risk and changes in government policy and legislation

The financial planning, mortgage broking, insurance, wealth management, stockbroking and superannuation industries in Australia are going through a period of significant regulatory change, particular in relation to FoFA reforms.

Further changes to legislation, regulation or government policy and their interpretation may affect the Group through altering the demand for services, causing an increase in costs to deliver services or through requiring a restructure of the way in which the Group operates its business.

The Group has successfully implemented phase 1 of its FoFA reforms and will continue to monitor other developments as they arise.

### Change in market sentiment, behaviour or competitors

The financial services industries in Australia are becoming increasingly competitive. Competition may place downward pressure on the fees that the Group charges its clients. Further, the inability to meet client expectations could lead to a loss of clients.

Demand for financial advice and wealth management products and services is impacted by consumer sentiment and the Group's past performance.

The Group continues to focus on developing its quality, professional high net worth and SME focused financial advice and accounting businesses, whilst closely monitoring the competitive landscape.

The Group has recently launched two innovative, transparent fee-based portfolio investment solutions to its clients and advisers (MPS and DPU) and continues to explore new product development and services which add value to our clients and advisers.

### Reliance on financial advisers and accountants

The Group's business is heavily reliant on human capital, in particular the financial advisers and accountants who service our clients.

The ability to retain and motivate these financial advisers and accountants, as well as to attract qualified and experienced new personnel, is critical to the Group's success.

The Group mitigates this risk through its human resources framework which seeks to ensure it has a highly professional and energetic workforce, a system of meritocracy to reward excellent performance and an environment which encourages knowledge sharing, learning and development.

The Group has a number of incentive plans applicable to different job roles, as well as benefit programs available to all employees and their families.

### Litigation risk

The Group is subject to the usual business risk that disputes or litigation may arise from time to time in the course of its business activities. Litigation risks relating to the Group include, but are not limited to, contractual claims, professional negligence, employee claims and regulatory disputes.

The Group mitigates this risk through its comprehensive compliance regime, including its documented Corporate Governance Framework, Risk Management Policy and Risk Monitoring and Reporting Framework. This is overseen by the Board with assistance of the Risk Management and Audit Committee.

The Group has insurances, including professional indemnity insurance in place to manage these risks arising from its day to day operations, as it considers appropriate.

## Comparison of current period results to previous corresponding period

### Management view

The Group's management reviews its operating revenue net of portfolio administration charges incurred in the administration of the Group's platforms, investment management fees and fund expense recoveries in relation to the Mosaic managed investment schemes, and trade execution expenses directly attributed to stockbroking revenue.

This summary should be read in conjunction with the table on the following page which reconciles the statutory results to those presented in management's summary view.

| | 2013 $'000 | 2012 $'000 | Change % |
|---|---|---|---|
| Net operating revenue | 133,992 | 117,991 | +13.6% |
| Share of associates' profit | 296 | 275 | +7.6% |
| Net operating expenses | (86,173) | (76,415) | -12.8% |
| **Operating EBITDA** | **48,115** | **41,851** | **+15.0%** |
| Net interest income | 71 | 429 | -83.4% |
| Depreciation | (1,304) | (1,269) | -2.8% |
| Income tax expense | (14,370) | (12,378) | -16.1% |
| **Underlying NPAT** | **32,512** | **28,633** | **+13.5%** |
| Acquisition related costs | (2,970) | (1,882) | -57.8% |
| One-off, non-operational items | (1,050) | (4,713) | +77.7% |
| Amortisation expense | (5,162) | (4,336) | -19.0% |
| Impairment of investment in associate | (923) | - | large |
| Notional funding cost of deferred consideration | (812) | (498) | -63.1% |
| Income tax effect of non-underlying items | 2,552 | 3,404 | +25.0% |
| **'Like for like' NPAT (before impact of RTFI [1])** | **24,147** | **20,608** | **+17.2%** |
| RTFI impact | - | (9,288) | -100.0% |
| **Profit after income tax attributable to equity holders (NPAT)** | **24,147** | **11,320** | **+113.3%** |
| Operating costs to income ratio [2] | 64.2% | 64.6% | +0.7% |

| | 2013 Cents | 2012 Cents | Change % |
|---|---|---|---|
| Underlying earnings per share | 4.45 | 3.93 | +13.1% |
| Basic earnings per share | 3.30 | 1.56 | +112.5% |
| Basic earnings per share (excluding RTFI) | 3.30 | 2.83 | +16.7% |
| Dividends per share [3] | 2.60 | 2.00 | +30.0% |

| | 2013 $m | 2012 $m | Change % |
|---|---|---|---|
| Funds Under Advice (FUA) | 12,584 | 10,816 | +16.3% |
| Funds Under Administration (FUAdmin) | 9,495 | 9,260 | +2.5% |
| Funds Under Management (FUM) | 5,013 | 4,376 | +14.6% |
| Managed portfolios (MP) | 645 | 43 | large |

1 RFTI refers to Rights to Future Income legislation, the reversal of which in FY12 had a significant effect on reported NPAT in that year – see page 18.
2 Calculated as 'net operating expenses' divided by 'net operating revenue' plus 'share of associates' profit'.
3 Dividends paid or payable from profits earned in the respective financial year.

## Comparison of current period results to previous corresponding period (continued)

### Reconciliation of statutory results to management view

The following table reconciles the statutory financial results, prepared in accordance with Australian Accounting Standards, to those presented in management's summary view:

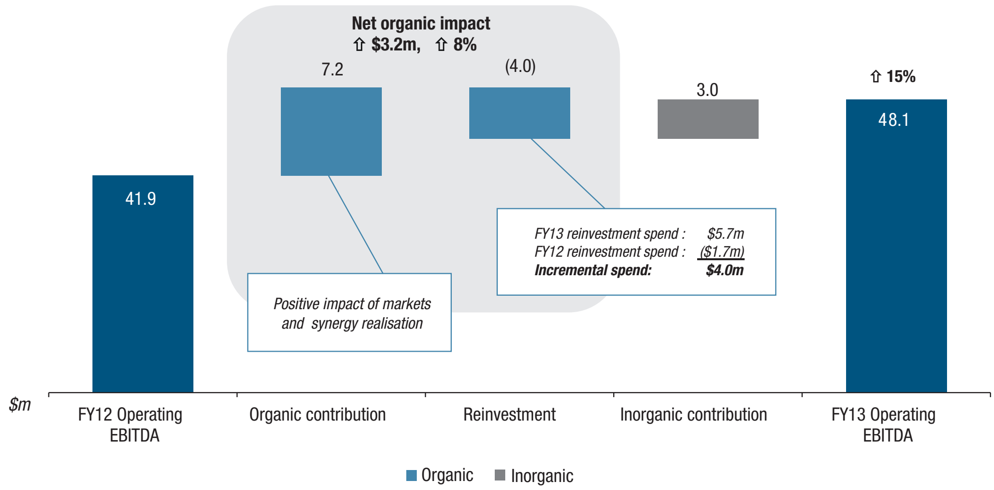
| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Revenue from continuing operations** | **155,810** | **138,085** |
| **Other income** | **710** | - |
| Interest received | **(884)** | (1,136) |
| One-off, non-operational income | **(695)** | (174) |
| Portfolio administration fees | **(11,362)** | (10,906) |
| Mosaic investment management fees and recovery of expenses | **(9,279)** | (7,565) |
| Trade execution expenses | **(308)** | (313) |
| **Net operating revenue** | **133,992** | **117,991** |
| **Statutory operating expenses** | **120,852** | **108,778** |
| Finance costs | **(1,626)** | (1,205) |
| One-off, non-operational expenses | **(1,745)** | (4,887) |
| Acquisition costs | **(2,970)** | (1,882) |
| Portfolio administration fees | **(11,362)** | (10,906) |
| Mosaic investment management fees and recovery of expenses | **(9,279)** | (7,565) |
| Trade execution expenses | **(308)** | (313) |
| Depreciation | **(1,304)** | (1,269) |
| Amortisation | **(5,162)** | (4,336) |
| Impairment | **(923)** | - |
| **Net operating expenses** | **86,173** | **76,415** |

The following commentary provides an analysis of the results for the year ended 30 June 2013 compared to the results of the year ended 30 June 2012 (as set out in the management summary view).

## Comparison of current period results to previous corresponding period (continued)

### Operating EBITDA

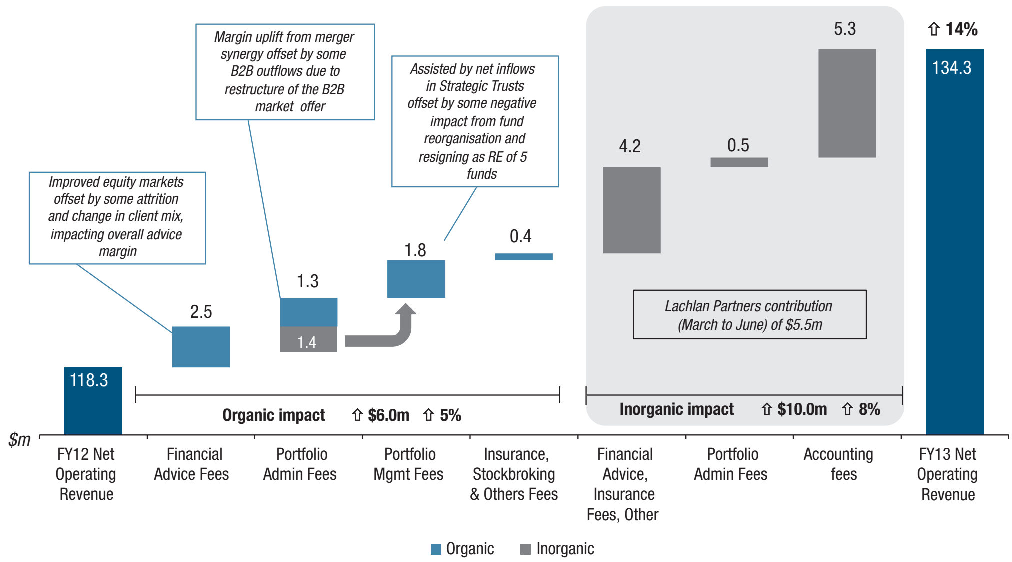
Operating EBITDA has increased by $6.3m or 15.0% compared to the pcp. This favourable Operating EBITDA result was driven by improvement in Net Operating Revenue, partially offset by increase in Net Operating Expenses, as summarised below.




### Net Operating Revenue

Net Operating Revenue, including share of associates' profit, for the reporting period has increased by $16.0m or 13.6% compared to the pcp. The following main factors have contributed to this increase:

- a revenue benefit of $5.6m from market related increases and the full realisation of synergies from the Snowball / Shadforth merger in 2011, offset by some client attrition and change in client mix;
- continued growth in insurance fees ($0.4m); and
- contribution from the full year impact of businesses acquired in FY12 and part year impact of businesses acquired in FY13 ($10.0m).

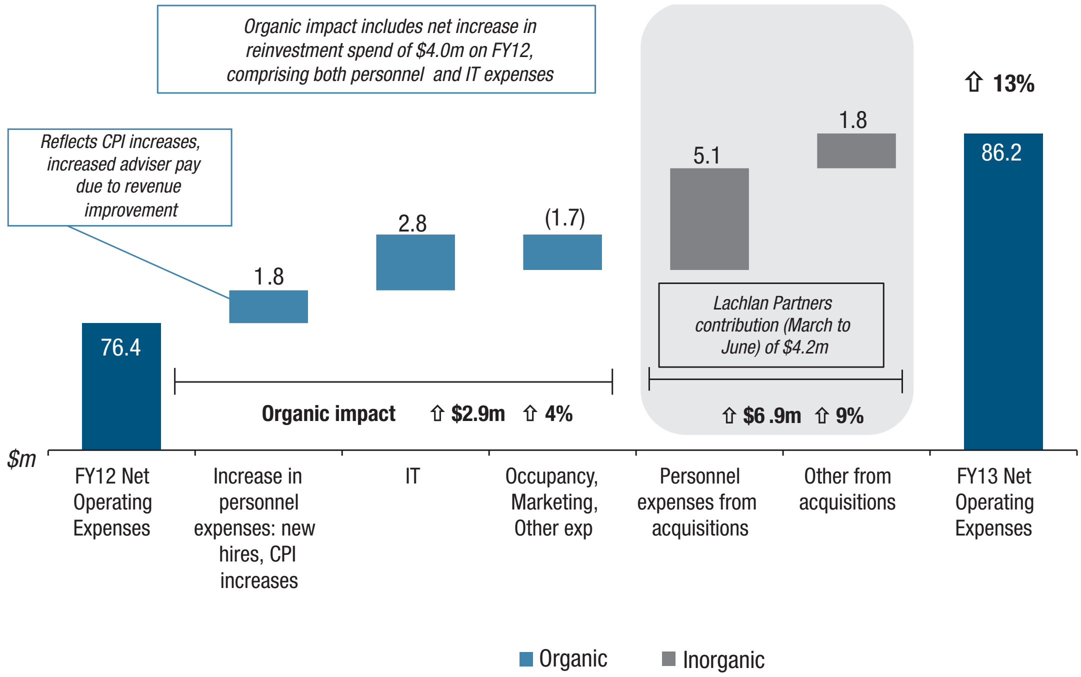


# Comparison of current period results to previous corresponding period (continued)

### Net Operating Expenses

The Group is actively reinvesting in the business to upgrade IT infrastructure and adviser and client systems to improve overall productivity, launch new strategic initiatives and to respond to regulatory change. This reinvestment has remained within planned levels and reflects the achievement of some key milestones in the Group's strategic initiatives.

Total reinvestment for the reporting period was $5.7m, compared with $1.7m in the previous corresponding period. These costs were mainly incurred in personnel-related costs, information technology costs and professional fees.




Total Net Operating Expenses for the reporting period have increased by $9.8m or 12.8% compared to the pcp. The following main factors have contributed to this increase:

- increase in personnel related costs, reflecting hires of new staff as part of the Group's reinvestment in the business, strategic initiatives, annual salary review and revenue related movements in adviser bonuses, net of savings as a result of various cost savings initiatives; and
- personnel expense increases from the acquisitions of Jeena, LFS/Spencers, Parkside, W Corp and Lachlan Partners.

The Group's Operating Cost to Income Ratio has reduced slightly from 64.6% in the previous corresponding period to 64.2% in the reporting period.

## Comparison of current period results to previous corresponding period (continued)

### Underlying NPAT

Underlying NPAT, being NPAT excluding the impact of: (1) one-off or non-operational items and specific acquisition-related costs; (2) non-cash amortisation and notional interest charges relating to businesses previously acquired; and (3) impact of RTFI, has increased by \$3.9m (13.5%) compared to the pcp, equivalent to a 13.1% increase in underlying earnings per share, from 3.93 cents per share to 4.45 cents per share. This has been primarily driven by an increase in current year Operating EBITDA of 15.0%, partially offset by a reduction in Net Interest Income due to higher debt levels.

The increase in underlying earnings per share of 13.1% compared with the increase in Underlying NPAT of 13.5% is due to the increase in the weighted average number of ordinary shares.

### One-off, non-operational items

During the reporting period, the Group incurred \$1.1m of net ‘one-off’ non-operational expenses (compared to \$4.7m for the pcp) relating to the remaining redundancy and occupancy costs associated with restructure and integration costs of the merger in June 2011 between Snowball and Shadforth, along with redundancy costs associated with the acquisition of Lachlan Partners.

### Acquisition-related costs

During the year, the Group has incurred \$3.0m of acquisition-related costs, primarily legal and consulting advice/services to assist the Group in respect of the acquisitions of Parkside, W Corp, and Lachlan Partners, as well as exploring other acquisition opportunities that either did not proceed or which continue to be investigated.

### Impairment of investment in associate

During the current reporting period, the Group recorded impairment of \$0.9m in relation to its investment in Duncan Dovico Holdings Pty Limited (‘DDH’). The investment has been written down to a carrying value reflective of the Group’s assessment of the present value of estimated future cash flows for the investment. This reflects the Group’s strategy to focus its investment, including in accounting and other related services, through wholly-owned interests within its Professional Advice operating segment.

### ‘Like for like’ NPAT (before impact of RTFI)

Statutory NPAT before impact of RTFI has increased by \$3.5m or 17.2% compared to the pcp. This has been driven primarily by the increase in Underlying NPAT of 13.5%, which has been partially offset by impairment recognised in relation to the Group’s investment in DDH and an increase in amortisation expense due to the full year impact of the acquisitions that were completed in FY12 and part year impact from the acquisitions undertaken this financial year.

### RTFI deductions

On 29 June 2012 the Australian Government passed legislation to reverse changes to Australia’s tax consolidation rules which allowed tax deductions for amounts allocated to certain contractual assets that, broadly, give rise to rights to future income. These amendments applied retrospectively to 1 July 2002.

In comparing NPAT of the reporting period against that of the pcp, the directors consider it important to highlight the NPAT on a ‘like for like’ basis excluding the anomaly of the impact of the RFTI reversal in the second half of the 2012 financial year.

## Comparison of current period results to previous corresponding period (continued)

### Statutory NPAT

Statutory NPAT has increased by $12.8m or 113.3% compared to the pcp, equivalent to a 112.5% increase in earnings per share, from 1.55 cents per share to 3.30 cents per share. This result has been driven by the anomaly of the impact of the reversal of the RFTI benefit in the second half of the 2012 financial year. This increase was also due to the increase in Underlying NPAT of 13.5%.

The increase in earnings per share of 112.5% compared with the increase in Statutory NPAT of 113.3% is due to the increase in the weighted average number of ordinary shares.

### FUA, FUAdmin and FUM

The table below compares the Group's FUA, FUAdmin, FUM and MP for the reporting period to the previous corresponding period:

| *In millions of Australian dollars* | As at 30 June 2013 | | | | As at 30 June 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **FUA [1]** | **FUAdmin [2]** | **FUM [3]** | **MP [4]** | **FUA [1]** | **FUAdmin [2]** | **FUM [3]** | **MP [4]** |
| **Operating Model** | | | | | | | | |
| Professional Advice | 10,905 | 7,159 | 4,573 | 455 | 9,246 | 6,535 | 3,700 | 31 |
| Affiliate Adviser | 1,299 | 799 | 418 | 190 | 1,205 | 887 | 592 | 13 |
| B2B Advice Services [5] | 380 | 1,538 | 23 | - | 365 | 1,837 | 84 | - |
| **Total** | **12,584** | **9,495** | **5,013** | **645** | **10,816** | **9,260** | **4,376** | **43** |

(1) FUA: funds upon which the Group derives a share of the advice fee. Stockbroking FUA is excluded from fund reporting.

(2) FUAdmin: funds upon which the Group derives a share of the administration margin – excludes Managed Portfolios.

(3) FUM: funds upon which the Group derives a share of the management margin.

(4) MP or Managed Portfolios: fund balances relating to MPS and DPU services administered by Avanteos Investments Limited, upon which the Group derives a portfolio construction fee.

(5) B2B Adviser Services ('B2B') funds reflect non-SFGA funds which are licensed, managed or administered by the Group and upon which the Group earns an associated management fee or administration fee.

The Group's total funds, the majority upon which it earns an advice fee, portfolio management fee, portfolio construction fee or administration fee, or a combination of these fees, have increased from the end of the pcp.

The increase in FUA and FUAdmin is due to relatively more favourable investment market conditions and the inclusion of W Corp and Lachlan Partners acquisitions.

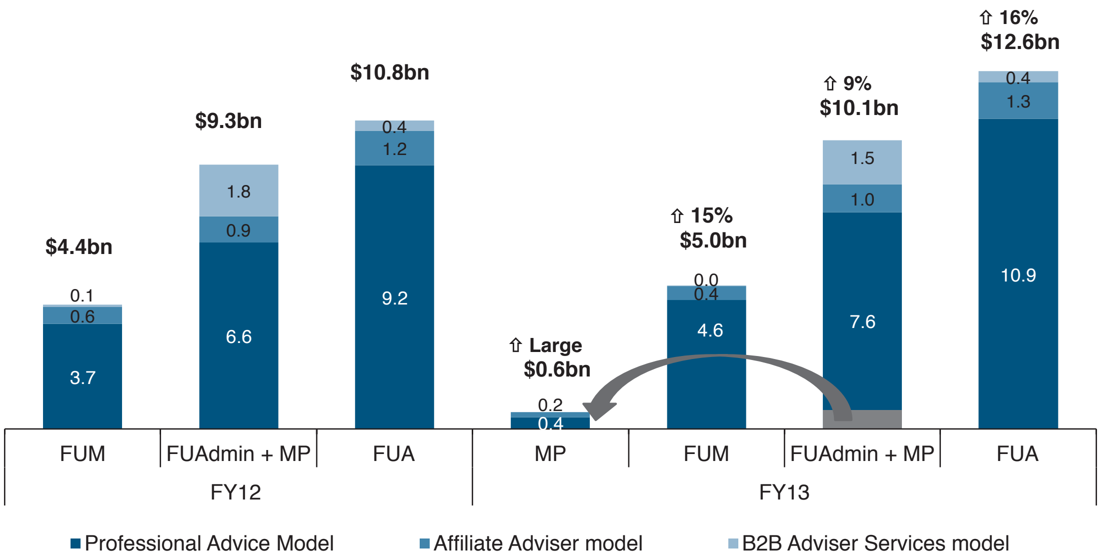
The increase in FUM is due to favourable investment market conditions, net positive flows and the establishment of the Mosaic Strategic Cash Plus Trust in early FY13, the benefits of which have been partially offset by the implementation of Mosaic's strategy to change its investments held by its diversified funds and management fees, and relinquishing its function and fees as the responsible entity of four managed investment schemes and termination of one managed investment scheme.

The Group launched two fee-based portfolio investment solutions to its clients and advisers, MPS and DPU. The MPS is a managed discretionary account service and the DPU is similar, except the client retains control of the periodic changes to their portfolio. MP, capturing MPS and DPU funds, has been reclassified from FUAdmin as at 30 June 2013 and for the pcp.

## Comparison of current period results to previous corresponding period (continued)

### FUA, FUAdmin and FUM (continued)

During the year to 30 June 2013, there has been reduction in the funds in the B2B Adviser Services model. The Group is in the process of restructuring its B2B offering.



# DIRECTORS' REPORT
**30 JUNE 2013**

Your directors present their report on the consolidated entity consisting of SFG Australia Limited ('SFGA' or 'the Company') and the entities it controlled at the end of, or during, the year ended 30 June 2013 (collectively 'the Group').

## Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

E R Dodd
A K Fenning
J B Gannon
J P Kilkenny
G E Maloney
P J Promnitz
N Sparks

In addition, J S Cowan was appointed as alternate director for A K Fenning from 23 November 2012 to 11 February 2013.

## Principal activities

During the year the principal continuing activities of the Group consisted of the provision of financial advice and wealth management services.

## Dividends

Dividends paid to members during the financial year were as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Ordinary shares** | | |
| Final dividend for the year ended 30 June 2012 of 1.00 cents (2011 – 1.00 cents) per fully paid share | **7,295** | 7,265 |
| Interim dividend for the year ended 30 June 2013 of 1.20 cents (2012 – 1.00 cents) per fully paid share | **8,814** | 7,295 |
| Total dividends provided for or paid | **16,109** | 14,560 |

In addition to the above dividends, since the end of the financial year the directors have declared a final fully franked ordinary dividend of 1.40 cents per share, to be paid on 24 October 2013. The record date for determining the entitlement to this dividend is 26 September 2013.

## Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and financial review on pages 5 to 20 of this annual report.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Effective 1 March 2013 the Group acquired 100% of the issued capital of Lachlan Partners Pty Limited and its controlled entities (collectively 'Lachlan Partners'). The acquisition of Lachlan Partners was funded by drawdown on the Group's existing debt facility and through the issue of 4.9 million ordinary shares. Further details on this acquisition, and the other acquisitions completed during the year, are included in the consolidated financial report and in the Operating and Financial Review on pages 5 to 20. The acquisitions have provided the Group with further revenue diversification and scale benefits.

## Matters subsequent to the end of the financial year

Other than the below, no matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operation of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Dividends

Subsequent to the end of the financial year, the directors have declared a final ordinary dividend of 1.40 cents per share, fully franked. The record date for determining the entitlement to this dividend is 26 September 2013.

### Acquisition

On 15 July 2013 Pindi Holdings Pty Limited, a Western Pacific advice practice based in North Sydney, exercised its option to sell its business to the Group. The acquisition was completed effective 1 August 2013 and the Group paid cash consideration of $1,254,127. The Group has not yet finalised its accounting for the acquisition.

## Likely developments and expected results of operations

Additional comments on expected results of certain operations of the Group are included in this annual report under the Operating and financial review on pages 5 to 20.

## Environmental regulation

The Group is not subject to significant environmental regulation.

## Meetings of directors

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

| | | | Meetings of committees | | | |
|---|---|---|---|---|---|---|
| | Full meetings of directors | | Risk Management and Audit | | Remuneration and Human Resources | |
| **Director** | **A** | **B** | **A** | **B** | **A** | **B** |
| P J Promnitz | 8 | 8 | 1 | 1 | 5 | 5 |
| J B Gannon | 8 | 8 | 6 | 6 | 5 | 5 |
| A K Fenning | 8 | 8 | * | * | * | * |
| E R Dodd | 8 | 8 | 5 | 5 | 4 | 5 |
| G E Maloney | 8 | 8 | 6 | 6 | * | * |
| J P Kilkenny | 8 | 8 | 6 | 6 | * | * |
| N Sparks | 8 | 8 | * | * | 4 | 5 |
| J S Cowan | - | - | * | * | * | * |

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee

## Information on directors

**Peter J Promnitz**
BSc (Hons), AIAA, FAICD.
*Chairman – Independent, non-executive director. Age 60.*

Mr Promnitz has been in office as non-executive director of the Company since 26 June 2011 and was appointed Chairman on 30 April 2013.

**Experience and expertise**
Mr Promnitz has 40 years experience in the financial services industry and previously held the position of Regional Head for Asia Pacific at Mercer.

**Current directorships of other listed companies**
Non-executive director of Australian Unity Limited (appointed 1 January 2013).

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Chairman.
Member of the Remuneration and Human Resources Committee.
Member of the Risk Management and Audit Committee (appointed 2 May 2013).

**Interests in shares, options and rights at the date of this report**
100,000 ordinary shares in the Company.

**John B Gannon**
*Deputy Chairman – Independent, non-executive director. Age 66.*

Mr Gannon has been in office as Deputy Chairman and non-executive director of the Company since 26 June 2011.

**Experience and expertise**
Mr Gannon has over 40 years experience in the wealth management industry, and was CEO of Gannon Growden Schonell group of companies, which became a subsidiary of Shadforth in 2008. Gannon Growden Schonell was a specialist financial advice and wealth management firm based in Perth, Western Australia.

**Current directorships of other listed companies**
None.

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Deputy Chairman.
Member of the Risk Management and Audit Committee.
Member of the Remuneration and Human Resources Committee.
Chairman of Western Pacific Financial Group Pty Limited.

**Interests in shares, options and rights at the date of this report**
33,899,099 ordinary shares in the Company.

## Information on directors (continued)

**Anthony K Fenning**
BEc LLB, MBA.
*Managing Director. Age 51.*

Mr Fenning has been in office as Managing Director of the Company since 26 June 2011.

**Experience and expertise**
Mr Fenning has over 20 years experience in the financial services industry, having held senior management positions in leading Australian financial services and wealth management companies over this period.

**Current directorships of other listed companies**
None.

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Managing Director and managing director of most of the subsidiary companies of SFGA.

**Interests in shares, options and rights at the date of this report**
26,514,909 ordinary shares in the Company.
2,000,000 performance rights over ordinary shares in the Company.

**Eric R Dodd**
BEc (UNE), FCA, FAICD.
*Independent, non-executive director. Age 61.*

Mr Dodd was appointed as Chairman and an independent, non-executive director of the Company on 2 July 2010. He stepped down from his role as Chairman on 30 April 2013.

**Experience and expertise**
Mr Dodd has extensive operational experience of more than 30 years in the insurance and financial services sectors. In 1996, Mr Dodd joined NRMA group as Chief Financial Officer and, in May 1998, became the Managing Director of NRMA Insurance Limited and Chief Executive Officer of NRMA Limited. Prior to NRMA, he held senior executive positions within the financial services industry.

Most recently, Mr Dodd held the position of Managing Director and CEO of MBF Australia Limited for six years and was appointed Managing Director of the combined organisation when MBF merged with BUPA Australia in June 2008.

**Current directorships of other listed companies**
Non-executive director and Chairman of the Board of Ambition Group Limited (March 2013).
Non-executive director of Credit Corp Group Limited (since 2009).
Non-executive director and Chairman of the Board of Firstfolio Limited (April 2012).

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Member of the Remuneration and Human Resources Committee.
Member of the Risk Management and Audit Committee (resigned 2 May 2013).
Chairman of Shadforth Financial Group Limited.

**Interests in shares, options and rights at the date of this report**
100,000 ordinary shares in the Company.

## Information on directors (continued)

**James P Kilkenny**
BComm, FCA, CFP.
*Executive director. Age 55.*

Mr Kilkenny has been in office as executive director of the Company since 26 June 2011.

**Experience and expertise**
Mr Kilkenny has over 25 years experience in the wealth management industry and is a founding principal of Kilkenny Rose, a specialist financial advice and wealth management firm based in Brisbane, Queensland, which was acquired by Shadforth in 2008. He was also a partner at an international accounting firm.

**Current directorships of other listed companies**
None.

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Private Client Adviser.
Member of the Risk Management and Audit Committee.
Chairman of Lachlan Partners Business Advisory Services Pty Limited.

**Interests in shares, options and rights at the date of this report**
9,010,697 ordinary shares in the Company.

**Graham E Maloney**
BA, AIA, FAICD.
*Independent, non-executive director. Age 62.*

Mr Maloney has been in office as a non-executive director of the Company since December 2009.

**Experience and expertise**
Mr Maloney started his career working as an actuary in superannuation at National Mutual (now AXA Asia Pacific Limited). He is currently Chief Executive Officer of Stratagm Pty Limited which provides advice and services to business (through board roles and consulting services) and to individuals (through mentoring and coaching).

His experience spans over 38 years working for blue chip organisations across a wide range of financial disciplines. These include life insurance and superannuation, general insurance, commercial banking and investment banking. His last executive role was with Macquarie Group Limited where he provided capital and funding advice to some of Australia's largest financial companies. Prior to that he was Group Treasurer for National Australia Bank Limited.

**Current directorships of other listed companies**
None.

**Former directorships of other listed companies in the last 3 years**
None.

**Special responsibilities**
Chairman of the Risk Management and Audit Committee.
Chairman of the Strategic Investment & Oversight Committee, a sub-committee for the Risk Management and Audit Committee.
Chairman of Mosaic Portfolio Advisers Limited.

**Interests in shares, options and rights at the date of this report**
100,000 ordinary shares in the Company.

## Information on directors (continued)

**Naseema Sparks**
BPharm, M Pharm (Pharmacol), MBA, GAIC.
*Independent, non-executive director. Age 60.*

Ms Sparks was appointed a non-executive director of the Company on 27 March 2012.

**Experience and expertise**
Ms Sparks has over 20 years experience in the advertising industry and as a consultant in media, marketing and branding. She also has a deep understanding of digital marketing, e-commerce and social media and the implications and risks for organisations of failing to manage these new aspects of the marketing mix.

**Current directorships of other listed companies**
Non-executive director of Melbourne IT Limited (since April 2012).
Non-executive director of PMP Limited (since August 2010).
Chartis (AIG) Advisory Board.

**Former directorships of other listed companies in the last 3 years**
Non-executive director of Blackmores Limited (until October 2012).
Non-executive director of Mitchell Communications Group (delisted November 2010).

**Special responsibilities**
Chairman of the Remuneration and Human Resources Committee (since 2 May 2013).

**Interests in shares, options and rights at the date of this report**
None.

## Information on company secretary

**Linda W Y Fox**
BComm, MBA, CA (NZ).

**Experience and expertise**
Mrs Fox commenced employment with Shadforth in 2007 and is the Chief Financial Officer and Company Secretary. Mrs Fox was previously a director, Chief Operating Officer and Company Secretary of Schroder Investment Management Australia Limited, and Chief Financial Officer of Merrill Lynch Private Australia Limited.

Mrs Fox holds a Bachelor of Commerce (Accounting) from the University of Otago, as well as a Diploma of Graduates in Information Systems. She also has a Master of Business Administration (Executive) from the Australian Graduate School of Management and she is a Chartered Accountant (New Zealand).

## Remuneration report

This report presents the remuneration arrangements in place for directors and key management personnel ('KMP') of the Group in accordance with the requirements of the *Corporations Act 2001 (Cth)* ('Corporations Act') and its regulations. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act.

### Remuneration governance

The Remuneration and Human Resources Committee is responsible for making recommendations to the Board on remuneration and human resources strategy, policies and practices generally. It makes specific recommendations on remuneration packages and other terms of employment for directors and executives having regard to their performance, relevant comparative information, and if appropriate, independent expert advice.

As well as a base salary, remuneration packages may include retirement and termination entitlements, performance-related incentives and fringe benefits. The Remuneration and Human Resources Committee sets the overall remuneration of directors and executives and the quantitative and qualitative criteria on which that remuneration is based. These objectives are consistent with the Group's strategic objectives and are linked to the at-risk component of the executives' remuneration. The Remuneration and Human Resources Committee is responsible for assessing whether the quantitative and qualitative criteria are met.

The Remuneration and Human Resources Committee is also responsible for making recommendations to the Board in relation to the terms of any issue of equity-based remuneration to employees, as a part of their individual package, or a wider staff incentive and retention scheme, and for ensuring that any such issue is made in accordance with the ASX Listing Rules.

The Remuneration and Human Resources Committee's terms of reference include responsibility for reviewing any transactions between the Group and the directors, or any interests associated with the directors, to ensure the structure and the terms of the transaction comply with the Corporations Act and are appropriately disclosed.

The corporate governance statement provides further information on the role of the Remuneration and Human Resources Committee.

### Use of remuneration consultants

The Remuneration and Human Resources Committee employed the services of Mercer (Australia) Pty Ltd ('Mercer') as the consultant to review the remuneration arrangements of the Board and the executives of the Group with a view to developing a remuneration strategy appropriate for the size, future development and performance of the Group. Under the terms of the engagement, Mercer provided remuneration recommendations as defined in section 9B of the Corporations Act and was paid $93,750.

Mercer has confirmed that the above recommendations have been made free from undue influence by members of the Group's key management personnel.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Mercer was engaged by, and reported directly to Eric Dodd, (then) Chairman of the Board; and
- the report containing the remuneration recommendations was provided by Mercer directly to the Chairman.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

In addition to providing remuneration recommendations, the Group engaged Mercer Investment Consulting to provide advice in relation to asset allocation, portfolio construction and consultant support. Mercer Investment Consulting was paid $100,000.

## Remuneration report (continued)

### Executive remuneration policy and framework

In determining executive remuneration, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent;
- align to the Company's strategic and business objectives and the creation of shareholder value;
- transparent; and
- acceptable to shareholders.

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation;
- short-term performance incentives; and
- long-term incentives through participation in the SFG Australia Limited Employee Incentive Plan.

A combination of some or all of these components comprises an executive's total remuneration.

*Base pay and benefits*

Executives receive their base pay and benefits structured as a total employment cost ('TEC') package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion. Some executives receive benefits including parking.

Base pay for executives is reviewed annually or on promotion. Base pay is benchmarked against market data for comparable roles in the market.

There are no guaranteed base pay increases included in any executives' contracts.

*Short-term incentives*

Executives have the opportunity to earn an annual short-term incentive ('STI') if predefined targets are achieved, depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target bonus opportunity is determined by the Remuneration and Human Resources Committee each financial year and may be up to 100% of base pay.

Each year, the Remuneration and Human Resources Committee considers the appropriate targets and key performance indicators ('KPIs') to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2013, the KPIs linked to STI plans were based on Group and individual personal objectives. Performance is based on a scorecard of 'financial' and 'strategic' metrics. Using financial metrics, which are linked to the Group's annual business plan with minimum performance thresholds, ensures the connection between rewards for executives being earned when value has been created for shareholders. Examples of strategic metrics include accountability, client focus, excellence, integrity and team work.

The Remuneration and Human Resources Committee is responsible for assessing whether the quantitative and qualitative criteria, upon which the STI payment is based, are met. To help make this assessment, the committee receives detailed peer reviewed reports on performance from management.

The STI bonus opportunity is calculated and paid annually in cash. Payment is subject to continuous employment with the Group.

## Remuneration report (continued)

### Executive remuneration policy and framework (continued)

*Long-term incentives*

Long-term incentives are provided to certain employees via the SFG Australia Limited Employee Incentive Plan (the 'Plan'). The Plan is designed to provide all eligible employees of the Group with an opportunity to share in ownership of, and promote the long-term success of, the Company.

The Board has the discretion to offer and issue any (or any combination) of the following kinds of awards to eligible employees including executive directors:

- Options – rights to be issued ordinary shares in the Company upon the payment of an exercise price and satisfaction of specified vesting conditions;
- Performance Rights – rights to be issued one ordinary share in the Company for every performance right for nil exercise price upon the satisfaction of specified vesting conditions;
- Deferred Share Awards – ordinary shares in the Company that are issued in lieu of wages, salary, director's fees or other remuneration, or by the Company in addition to remuneration or in lieu of any discretionary cash bonus or other incentive payment;
- Exempt Share Awards – ordinary shares in the Company issued for nil consideration or at an issue price which is at a discount to the prevailing market price with the intention that up to $1,000 of the total value or discount received by the employee will be exempt from tax. Exempt share awards issued under the Plan may not be sold until the earlier of three years after issue or cessation of employment; and
- Limited Recourse Loan Awards – ordinary shares in the Company where some or all of the issue price is funded by way of a loan from the Company.

### Share trading policy

The trading of shares issued to participants under any of the Company's employee incentive plans is subject to, and conditional upon, compliance with the Company's employee share trading policy. Under the terms of the policy, employees may not enter into any hedging arrangements over unvested options or performance rights.

### Non-executive director remuneration policy

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of 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 non-executive directors based on comparable roles in the external market. It is Company policy that the Chairman is not present at any discussions relating to determination of his own remuneration.

Non-executive directors do not receive performance-based pay.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $900,000 per annum and was approved by shareholders at the annual general meeting held on 29 November 2011.

The following fees have applied:

| | From 1 July 2013 | From 1 July 2012 to 30 June 2013 |
|---|---|---|
| Fees per annum | | |
| Chairman | $180,000 | $180,000 |
| Deputy Chairman | $90,000 | $90,000 |
| Other non-executive directors | $90,000 | $90,000 |

In addition to the fees set out above, additional discretionary payments may be made to the non-executive directors, subject to the aggregate directors' fees not exceeding the fee pool limit on an annual basis.

## Remuneration report (continued)

### Voting and comments made at the Company's 2012 Annual General Meeting

The Company received more than 90% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the Annual General Meeting ('AGM') or throughout the year on its remuneration practices.

### Link between reward and Group performance

As described above the remuneration of directors and executives is linked to Group performance through aligning the objectives of the business and shareholders with a remuneration policy that provides a fixed remuneration component combined with appropriate targets and KPIs.

The directors believe that the remuneration policies for directors and executives have been appropriate with regard to the Group's strategy and operating performance to date.

### Details of remuneration

The following tables show details of the remuneration received by the directors and the key management personnel of the Group for the current and previous financial year.

| 2013 | Short-term employee benefits | | Post-employment | Long term benefits | | Share based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash, salary and fees $ | Cash bonus $ | Super-annuation $ | Long service leave $ | Termination benefits $ | Performance rights $ | **Total $** |
| **Non-executive directors** | | | | | | | |
| P J Promnitz | 101,284 | - | 3,716 | - | - | - | **105,000** |
| J B Gannon | 82,569 | - | 7,431 | - | - | - | **90,000** |
| E R Dodd | 151,376 | - | 13,624 | - | - | - | **165,000** |
| G E Maloney | 90,000 | - | - | - | - | - | **90,000** |
| N Sparks | 82,569 | - | 7,431 | - | - | - | **90,000** |
| Subtotal non-executive directors | 507,798 | - | 32,202 | - | - | - | **540,000** |
| **Executive directors** | | | | | | | |
| A K Fenning | 683,530 | 500,000 | 16,470 | 24,937 | - | 128,519 | **1,353,456** |
| J P Kilkenny | 231,226 | 32,924 | 16,470 | (9,077) | - | - | **271,543** |
| **Other key management personnel** | | | | | | | |
| J S Cowan | 391,165 | 225,000 | 16,470 | 1,708 | - | 35,111 | **669,454** |
| L W Y Fox | 262,607 | 225,000 | 16,470 | 9,972 | - | 52,785 | **566,834** |
| N R M Bedding | 373,530 | 225,000 | 16,470 | (38,069) | - | 54,197 | **631,128** |
| P Pezzi [1] | 167,180 | 40,000 | 5,490 | (33,291) | - | - | **179,379** |
| D A Pitcher | 250,197 | 110,000 | 16,470 | 1,350 | - | - | **378,017** |
| **Total key management personnel compensation** | 2,867,233 | 1,357,924 | 136,512 | (42,470) | - | 270,612 | **4,589,811** |

[1] P Pezzi was appointed on 1 March 2013.

## Remuneration report (continued)

### Details of remuneration (continued)

| 2012 | Short-term employee benefits | | Post-employment | Long term benefits | | Share based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash, salary and fees $ | Cash bonus $ | Super-annuation $ | Long service leave $ | Termination benefits $ | Performance rights $ | **Total $** |
| **Non-executive directors** | | | | | | | |
| E R Dodd | 158,655 | - | 21,345 | - | - | - | **180,000** |
| J B Gannon | 100,917 | - | 9,083 | - | - | - | **110,000** |
| G E Maloney | 90,000 | - | - | - | - | - | **90,000** |
| P J Promnitz | 82,569 | - | 7,431 | - | - | - | **90,000** |
| N Sparks [1] | 21,893 | - | 3,321 | - | - | - | **25,214** |
| Subtotal non-executive directors | 454,034 | - | 41,180 | - | - | - | **495,214** |
| **Executive directors** | | | | | | | |
| A K Fenning | 684,255 | 650,000 | 15,775 | 26,334 | - | 35,000 | **1,411,364** |
| J P Kilkenny | 254,225 | 18,499 | 15,775 | (23,868) | - | - | **264,631** |
| A B McDonald [2] | 100,188 | - | 4,113 | 6,952 | 860,846 | 2,946 | **975,045** |
| **Other key management personnel** | | | | | | | |
| J S Cowan [3] | 48,606 | - | 3,944 | 89 | - | - | **52,639** |
| L W Y Fox | 267,225 | 250,000 | 15,775 | 10,343 | - | 8,837 | **552,180** |
| N R M Bedding | 374,225 | 243,800 | 15,775 | 25,468 | - | 9,543 | **668,811** |
| D A Pitcher [4] | 85,510 | 23,333 | 6,370 | 168 | - | - | **115,381** |
| S R Manion [5] | 312,001 | 100,000 | 15,556 | 1,619 | 231,123 | 14,681 | **674,980** |
| J J Nunan [6] | 80,145 | - | 4,156 | 2,236 | - | - | **86,537** |
| C F Scarcella [7] | 140,219 | - | 7,039 | (3,681) | 716,894 | 2,946 | **863,417** |
| **Total key management personnel compensation** | 2,800,633 | 1,285,632 | 145,458 | 45,660 | 1,808,863 | 73,953 | **6,160,199** |

[1] N Sparks was appointed as a non-executive director on 27 March 2012.
[2] A B McDonald resigned as an executive director on 27 March 2012.
[3] J S Cowan was appointed on 27 May 2012.
[4] D A Pitcher was appointed on 27 March 2012.
[5] S R Manion resigned on 25 June 2012.
[6] J J Nunan ceased to be part of key management personnel on 5 October 2011.
[7] C F Scarcella resigned on 20 December 2011.

## Remuneration report (continued)

### Details of remuneration (continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Executive directors** | | | | | | |
| A K Fenning | 54% | 51% | 37% | 46% | 9% | 3% |
| J P Kilkenny | 88% | 93% | 12% | 7% | - | - |
| A B McDonald [1] | - | 99% | - | - | - | 1% |
| **Other key management personnel** | | | | | | |
| J S Cowan [2] | 61% | 100% | 34% | - | 5% | - |
| L W Y Fox | 51% | 53% | 40% | 45% | 9% | 2% |
| N R M Bedding | 56% | 62% | 36% | 36% | 8% | 2% |
| P Pezzi [3] | 78% | - | 22% | - | - | - |
| D A Pitcher [4] | 71% | 80% | 29% | 20% | - | - |
| S R Manion [5] | - | 83% | - | 15% | - | 2% |
| C F Scarcella [6] | - | 99% | - | - | - | 1% |

### Additional information

For each cash bonus included in the tables above and on the previous pages, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the services and performance criteria is set out below. No part of the bonus is payable in future years.

| | 2013 Cash Bonus | | 2012 Cash Bonus | |
|---|---|---|---|---|
| | Paid % | Forfeited % | Paid % | Forfeited % |
| **Executive directors** | | | | |
| A K Fenning | 100% | - | 100% | - |
| J P Kilkenny | 100% | - | 100% | - |
| A B McDonald [1] | - | - | 100% | - |
| **Other key management personnel** | | | | |
| J S Cowan [2] | 100% | - | - | - |
| L W Y Fox | 100% | - | 100% | - |
| N R M Bedding | 100% | - | 100% | - |
| P Pezzi [3] | 100% | - | - | - |
| D A Pitcher [4] | 100% | - | 100% | - |
| S R Manion [5] | - | - | 100% | - |
| C F Scarcella [6] | - | - | 100% | - |

[1] A B McDonald resigned as an executive director on 27 March 2012.
[2] J S Cowan was appointed on 27 May 2012.
[3] P Pezzi was appointed on 1 March 2013.
[4] D A Pitcher was appointed on 27 March 2012.
[5] S R Manion resigned on 25 June 2012.
[6] C F Scarcella resigned on 20 December 2011.

## Remuneration report (continued)

### Service agreements

Remuneration and other terms of employment for the executive directors and each of the other key management personnel and other Group executives are formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses, other benefits, and participation, when eligible, in the SFG Australia Limited Employee Incentive Plan. Other major provisions of the agreements relating to remuneration are set out below.

Contracts with KMP may be terminated by the Group or the individual on three months' notice. Key matters, events or circumstances which will, or are likely to affect the calculation of the payment in lieu of notice of key management personnel include:

- the individual's total fixed annual remuneration at the time of termination which will be set on an annual basis following the individuals' remuneration review;
- in the case of termination by the relevant Group entity, the remaining period of the term of the individual's employment; and
- where notice is given by the individual, the length of any period of notice the individual is required to work by the relevant Group entity for which payment is being made.

The above mentioned termination regulations are applicable to all key management personnel except where termination benefits have been disclosed.

| Name | Term of agreement | Base salary including superannuation * | Termination benefit |
|---|---|---|---|
| **A K Fenning**<br>Managing Director | Ongoing<br>Commenced 2 April 2008 | $700,000 | - |
| **J P Kilkenny**<br>Executive director and Private Client Adviser | Ongoing<br>Commenced 1 July 2010 | $270,000 (to 31 January 2013)<br>$216,470 (from 1 February 2013) | - |
| **J S Cowan**<br>Chief Operating Officer | Ongoing<br>Commenced 27 May 2012 | $435,000 | - |
| **L W Y Fox**<br>Chief Financial Officer | Ongoing<br>Commenced 1 April 2010 | $283,000 | - |
| **N R M Bedding**<br>Head of Shadforth and Outlook | Ongoing<br>Commenced 1 July 2010 | $390,000 | - |
| **P Pezzi**<br>Head of Lachlan Partners | Ongoing<br>Commenced 1 March 2013 | $400,000<br>(Pro-rata) | - |
| **D A Pitcher**<br>Head of finHQ | Ongoing<br>Commenced 27 March 2012 | $250,000 (to 28 February 2013)<br>$300,000 (from 1 March 2013) | - |

* Base salaries quoted are for the year ended 30 June 2013; they are reviewed annually by the Remuneration and Human Resources Committee.

### Share-based compensation

The establishment of the SFG Australia Limited Employee Incentive Plan was approved by the directors on 17 December 2008 and amended at the AGM on 29 November 2011.

*Options*

No options were granted during the year ended 30 June 2013 or the year ended 30 June 2012.

*Shares provided on exercise of remuneration options*

There have been no options exercised in either the current or prior period. During the current financial year 1,600,000 options granted to a former executive director and a former member of key management personnel with a weighted average exercise price of $0.88 expired (2012: 2,245,000 options; weighted average exercise price $0.52).

# Remuneration report (continued)

### Share-based compensation (continued)

*Performance rights*

A 'performance right' is a right to acquire one ordinary share for nil exercise price upon the satisfaction of certain vesting conditions. Performance rights granted under the Plan carry no dividend or voting rights. As soon as practicable after vesting, the Company will issue to each participant one ordinary share in the Company for each performance right that has vested, subject to any withholding tax.

On 29 March 2013, a total of 2,900,000 performance rights were issued to six eligible employees. The performance period for these rights commenced on 1 July 2012 and will be assessed at their expected vesting date of 30 June 2015.

Unless otherwise determined by the Board, the vesting of performance rights is conditional upon two conditions being satisfied:

- 50% of the allocation of performance rights will be subject to the Total Shareholder Return ('TSR') Vesting Condition; and
- 50% of the allocation of performance rights will be subject to the Profit Per Share ('PPS') Vesting Condition.

*TSR Vesting Conditions*

The 'external' vesting condition set by the Board for vesting of 50% of the performance rights is the TSR of the Company. The Company's TSR was chosen as it is widely recognised as one of the best indicators of shareholder value creation. TSR represents the change in market value of the Company over time, including its share price and dividends and any other distributions made to the Company's shareholders.

The Board will compare the percentage increase (or decrease) in the TSR of each of the companies that make up the 'S&P/ASX 300 Financial' accumulation index (excluding A-REITs), measured over the three year period ending immediately prior to each vesting date with the relative increase (or decrease) in the TSR of a shareholding in SFG Australia Limited over the same period ('the Relative TSR'). The S&P/ASX 300 Financial index (excluding A-REITs) was chosen as it represents the industry in which the Company participates and is therefore a relevant group with which the Company competes for its shareholders' capital.

Performance rights that are subject to the TSR Vesting Condition will only vest subject to and in accordance with the following parameters:

- if the TSR is negative, none of those performance rights will vest;
- if the Relative TSR is below 50%, none of those performance rights will vest;
- if the Relative TSR is equal to 50%, 50% of those performance rights will vest;
- if the Relative TSR is between 50% and 75%, vesting will occur on a straight scale between 50% and 100% of those performance rights; and
- if the Relative TSR is more than 75%, 100% of those performance rights will vest.

*PPS Vesting Conditions*

The 'internal' vesting condition set by the Board for vesting of the remaining 50% of the performance rights is the PPS of the Company for a specific period. PPS is calculated using after-tax profits for a relevant period derived from the Company's continuing operations including the notional financial impact of any deferred consideration for completed acquisitions and excluding any impairment charges, acquisition costs or amortisation of intangible assets unless such charges can be shown to be a genuine assessment of the reduction in the value of the business which has not already been reflected in the underlying PPS calculation. The Company will measure the increase (or decrease) in PPS over the three year period ending immediately prior to each vesting date ('the Relative PPS') with a Target and Threshold PPS, determined by the Board at or prior to each yearly allocation of performance rights.

Performance rights that are subject to the PPS Vesting Condition will only vest if the Relative PPS is a percentage increase, and then only subject to and in accordance with the following parameters:

- if the Relative PPS is less than the Threshold PPS, none of those performance rights will vest;
- if the Relative PPS is equal to the Threshold PPS, 25% of those performance rights will vest;
- if the Relative PPS is between the Threshold PPS and the Target PPS, vesting will occur on a straight line between 25% and 100% of those performance rights; and
- if the Relative PPS is above the Target PPS, 100% of those performance rights will vest.

## Remuneration report (continued)

### Share-based compensation (continued)

*Accelerated vesting and termination benefits*

Performance rights may vest on an accelerated basis in certain limited circumstances, including on a takeover, death, redundancy or retirement. However, if a participant's employment with the Company terminates for cause or as a result of resignation, any outstanding performance rights will immediately lapse.

Upon vesting, the Company will issue to the executive one ordinary share in the Company for each performance right. The accelerated vesting of performance rights in these circumstances may be considered a termination benefit.

The terms and conditions of each grant of performance rights affecting remuneration in the current or a future reporting period are as follows:

| Effective grant date | Expected vesting date | Vesting condition | Fair value at grant date | Performance achieved | Percentage vested |
|---|---|---|---|---|---|
| 29 March 2013 | 1 July 2015 | PPS | $0.56 | To be determined | n/a |
| 29 March 2013 | 1 July 2015 | TSR | $0.50 | To be determined | n/a |
| 1 January 2012 | 1 January 2015 | PPS | $0.25 | To be determined | n/a |
| 1 January 2012 | 1 January 2015 | TSR | $0.17 | To be determined | n/a |

Details of performance rights provided as remuneration to each executive of the Company and each of the other KMP of the Group are set out below. When vested, each performance right is convertible into one ordinary share of the Company. Further information on the performance rights is set out in note 36 to the consolidated financial statements.

| Name | Financial year granted | Rights granted Number | Fair value at grant date * $ | Rights vested Number | Rights forfeited Number | Financial year in which rights may vest | Maximum value yet to vest $ |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| A K Fenning | 2013 | 1,000,000 | 530,000 | - | - | 2016 | 471,481 |
| | 2012 | 1,000,000 | n/a | - | - | 2015 | 105,000 |
| **Other key management personnel** | | | | | | | |
| J S Cowan | 2013 | 600,000 | 318,000 | - | - | 2016 | 282,889 |
| L W Y Fox | 2013 | 600,000 | 318,000 | - | - | 2016 | 282,889 |
| | 2012 | 252,487 | n/a | - | - | 2015 | 26,511 |
| N R M Bedding | 2013 | 600,000 | 318,000 | - | - | 2016 | 282,889 |
| | 2012 | 272,653 | n/a | - | - | 2015 | 28,628 |
| S R Manion | 2012 | 419,465 | n/a | 128,170 | 291,295 | - | - |
| Total | 2013 | 2,800,000 | 1,484,000 | - | - | 2016 | 1,320,148 |
| | 2012 | 1,944,605 | n/a | 128,170 | 291,295 | 2015 | 160,139 |

* The fair value at grant date calculated in accordance with AASB 2 Share-based payments of performance rights granted during the year as part of remuneration.

## Remuneration report (continued)

### Share-based compensation (continued)

*Shares provided on vesting of performance rights*

A total of 128,170 performance rights issued to KMP vested during the current year under the accelerated vesting conditions set out in the terms of issue of the performance rights. The performance rights vested on 30 November 2012 due to the termination of an employee. The shares attached to these performance rights were issued on 25 December 2012.

No performance rights vested during the prior year.

*Exempt share awards*

Exempt share awards are ordinary shares in the Company that may be issued to employees for no cash consideration. All Australian resident full-time and permanent part-time employees (excluding directors, the company secretary, and members of the executive team) who are employed by the Company or any of its related bodies corporate are eligible to participate in the Plan. Employees may elect not to participate in the Plan.

Under the rules of the plan, eligible employees may be granted fully paid ordinary shares in the Company annually, at the Board's discretion, for no cash consideration. There was no grant of fully paid ordinary shares during the year ended 30 June 2013 or 30 June 2012.

The directors of the Company, the company secretary and other employees eligible for issue of performance rights under the SFG Australia Limited Employee Incentive Plan are not eligible to participate in the Company's exempt share awards scheme.

## Shares under option

Unissued ordinary shares of the Company at the date of this report are as follows:

| | Number of holders | Number on issue |
|---|---|---|
| Options issued under the SFG Australia Limited Employee Share Plan to take up ordinary shares, expiring 31 December 2013 | 2 | 1,200,000 |
| Performance rights under the SFG Australia Limited Employee Share Plan | 6 | 4,509,033 |

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity in the Group.

There were no options exercised during the year ended 30 June 2013.

No performance right holder has any right under the performance rights to participate in any other share issue of the Company or of any other entity.

## Insurance of officers

During the financial year, the Group paid a premium to insure the directors, the company secretary and executive officers of the Company and its Australian-based controlled entities. In accordance with normal commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

## Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers, 'PwC Australia') for non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with the recommendation of the Risk Management and Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Risk Management and Audit Committee to ensure they do not impact the impartiality 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*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

| | **2013 $** | 2012 $ |
|---|---|---|
| **PwC Australia** | | |
| *Taxation services* | | |
| Tax compliance services | **85,008** | 104,025 |
| *Other services* | | |
| Due diligence services | **251,000** | 185,000 |
| Governance, risk management and business continuity planning | **230,655** | 174,403 |
| | **481,655** | 359,403 |
| Total non-audit remuneration of PwC Australia | **566,663** | 463,428 |

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 40.

## Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act.

This report is made in accordance with a resolution of directors.

**P J Promnitz**
Chairman
Sydney
26 September 2013

pwc

## Auditor's Independence Declaration

As lead auditor for the audit of SFG Australia Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of SFG Australia Limited and the entities it controlled during the period.

SK Fergusson
Partner
PricewaterhouseCoopers

Sydney
26 September 2013

***PricewaterhouseCoopers, ABN 52 780 433 757***
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# CORPORATE GOVERNANCE STATEMENT
**30 JUNE 2013**

## Overview

The Board of directors of the Company is responsible for the corporate governance and the operational and financial performance of the Company and its subsidiaries. The Board is also responsible for overseeing corporate strategy and to ensure the Group is properly managed. Day-to-day management of the Group's affairs and implementation of corporate strategy and policy initiatives are delegated by the Board to the Managing Director and the EMT. The members of the EMT are outlined in the Operating and financial review on pages 10 to 11.

## Compliance with corporate governance principles and recommendations

The Company is committed to maintaining high standards of corporate governance. Except as set out below, the Company's corporate governance practices described in this corporate governance statement complied with the ASX Corporate Governance Council's principles ("Principles") and recommendations ("Recommendations").

For the reasons set out below, the Company does not comply with the following Recommendations:

### Recommendation 2.4 – Establishment of a nomination committee

Recommendation 2.4 suggests that the Board should establish a nomination committee. The Board has not established a nomination committee. The whole Board carries out the functions which would otherwise be undertaken by a nomination committee. The Directors consider this appropriate for a Company of SFGA's size and believe that, due to the composition of the Board, no efficiencies would be achieved by establishing a separate nomination committee.

### Recommendation 4.2 – Structure of audit committee

Recommendation 4.2 suggests that the audit committee should be structured so that:

(a) it consists of only non-executive directors;
(b) it consists of a majority of independent directors;
(c) is chaired by an independent chair who is not chair of the Board; and
(d) it has at least 3 members.

The Company's Risk Management and Audit Committee does not meet the test set out in paragraph (a) above, in that it is comprised of three non-executive directors and one executive director. The Company complies in all other respects with Recommendation 4.2.

Details regarding the committee members and their qualifications are contained in the directors' report. The Board considers the directors currently constituting the committee to be the most appropriate members of the committee given their technical, finance and accounting expertise and broad knowledge of the industry in which the Group operates and in particular considers that the inclusion on the committee of Mr James Kilkenny, an executive director, allows the committee to better fulfil its duties.

The following sections of the corporate governance statement outline the Group's corporate governance policies and practices by reference to the Principles. All corporate governance documents noted in this Statement are available in the corporate governance section on the Group's website: www.sfgaustralia.com.au.

## Principle 1: Lay solid foundations for management and oversight

The Board is responsible for the overall corporate governance of the Group. To assist in the execution of its responsibilities, the Board has established the Risk Management and Audit Committee and the Remuneration and Human Resources Committee.

### The Board's responsibilities

The Board is responsible for:

- monitoring the operational and financial performance of the Group;
- overseeing corporate strategy and providing input and assistance to management in the development of the Group's strategic plan;
- overseeing the activities of the Managing Director and other senior members of the Company's management in carrying out the duties delegated to them; and
- determining the size and composition of the Board.

The detailed responsibilities of the Board, the Chairperson, the Managing Director and the Company Secretary are set out in the Company's Board Charter.

The Charter also sets out the powers of the Board to constitute and delegate to committees and to conduct a performance review process for directors and details the ability of directors to seek independent professional advice at the Company's expense.

The conduct of the Board is also governed by the constitution of the Company. A copy of the constitution is available on request from the Company Secretary.

### Board meetings

The Board holds at least eight formal meetings a year. Additional meetings are held as required. A meeting is held each year to review and approve the strategy and financial plan for the next financial year. The Board may also meet with members of the EMT to consider matters of strategic importance to the Group.

### Management's responsibilities

The Board has delegated to the Managing Director authority to oversee the running of the business and strategic direction of the Group in relation to all matters other than those expressly reserved to the Board, Chairperson or Company Secretary under the Board Charter. The Managing Director is required to report to the Board in a timely manner. Clear lines of communication between the Chairman and the Managing Director are established, and the Managing Director is required to keep the Chairman abreast of all material matters affecting the Group.

The role of the EMT is to support the Managing Director in running the business of the Group, in accordance with the delegated authority of the Board.

### Performance of Senior Executives

Principles used to determine the nature and amount of remuneration and the relationship between remuneration and the Group's performance are outlined in the Remuneration report on pages 28 to 37.

The Board evaluates the performance of the Managing Director against agreed plans and the key performance indicators that it sets at the beginning of each year. The Managing Director evaluates the performance of the other members of the EMT and makes recommendations on their performance to the Remuneration and Human Resources Committee.

The performance of EMT members is evaluated on an annual basis against their key performance indicators that have been set at the start of the year by the Remuneration and Human Resources Committee. Key performance indicators cover both financial and non-financial aspects of each EMT member's role, as more fully described in the Remuneration report on pages 28 to 37.

The performance of the Company's most senior executives (in addition to the members of the EMT) has been assessed this year in accordance with the process adopted by the Board.

## Principle 2: Structure the Board to add value

### Composition of the Board

The Board's aim is to ensure the Company has an appropriate mix of executive and non-executive directors with relevant expertise and experience to enable the Board to perform its duties with an effective understanding of the business and the operating environment.

The composition of the Board during the 2013 financial year is outlined in the directors' report. Currently the Board comprises two executive directors (Mr Anthony Fenning, Managing Director and Mr James Kilkenny) and five independent, non-executive directors (Mr Eric Dodd, Mr John Gannon, Mr Graham Maloney, Mr Peter Promnitz and Ms Naseema Sparks), one of whom (Mr Peter Promnitz) is the Chairman of the Company. Independence is determined using the criteria for determining the independent status of a director set out in the Principles.

The Board believes that individually and collectively, the composition of the Board has been appropriate to enable it to discharge its duties in the best interests of shareholders and the Company, particularly given the expertise, skills, diversity and experience of the Board members. The skills, experience and expertise of each member of the Board is set out in the directors' report on pages 24 to 27, as is the period in office of each of the directors as at the date of this report and each director's attendance at Board and committee meetings.

### Changes to the Board

The Board Charter requires the Board to review, on an annual basis, the required and desirable competencies of Directors and to that there is in place a succession plan designed to maintain an appropriate balance of skills, experience and expertise on the Board. There is no Nomination Committee. The Board considers this appropriate for a Company of SFGA's size and that, due to the composition of the Board, no efficiencies would be achieved by establishing a separate Nomination Committee. The whole Board carries out the functions which would otherwise be undertaken by a Nomination Committee.

Currently all directors (other than the Managing Director) are required to be re-elected by shareholders at least every three years and at least one third of such directors must retire at each annual general meeting. Due to the requirement for shareholder re-election, directors are not appointed for a fixed term.

### Board meetings

Each director must declare any potential conflict of interest in relation to any matter for Board consideration, and must not participate in discussions or resolutions pertaining to any matter in which that director has a material personal interest.

### Access to information

Directors are encouraged to access members of the EMT at any time to request relevant information in their role as director.

In fulfilling their duties, each director and each committee of the Board may obtain independent professional advice at the Group's expense on matters relating to their role as director, subject to prior written approval of the Chairman of the Company.

### Board performance review

The Board undertakes a formal performance assessment review at least annually. The assessment encompasses the Board, Board committees and individual Board members. A performance assessment review of the Board, its committees and individual directors was conducted during the 2013 financial year. The Board review assessed the Board's effectiveness in setting strategy and monitoring overall Group performance; its oversight of financial, risk, and human capital management; the content and conduct of Board and committee meetings; and the skills mix of the members of the Board and its committees. Individual director performance was evaluated in terms of relevance of expertise and contribution, ability to contribute to decision-making, and understanding of sound governance practices.

## Principle 3: Promote ethical and responsible decision-making

### Code of Conduct

The Company's ethical standards and the expected ethical behaviour of employees are outlined in the Company's Code of Conduct which sets out principles and practices to promote integrity and accountability and documented the underlying values of the Group which apply to all its business dealings. In addition, the Company has adopted a set of core values which serves as a constant reference point for assessing the way in which individuals and the Company operate.

The Code of Conduct applies to all employees, directors and officers of the Group and references other Group policies and procedures to provide further guidance where necessary. The Code of Conduct covers the following general areas:

- Compliance with laws and regulations;
- Acting honestly and with integrity
- Compliance with the Company's policies and manuals;
- Conflicts of interest
- Personal transactions and benefits
- Payments, gifts and other benefits
- Intellectual property;
- Insider trading; and
- Electronic communications.

### Diversity Policy

The Group's Diversity Policy promotes diversity in the workplace and creates an environment where individual differences are valued and all employees have the opportunity to realise their potential and contribute to the Group's success. The Group embraces workforce diversity as a source of strength and is committed to providing an environment in which employees have equal access to opportunities at work, are treated with fairness and respect, and are not judged by unlawful reference to their attributes.

The Group has developed a number of guiding principles and has practices to embed these in our day to day operation of the Group. Measurable objectives are continuously being developed and refined so that progress towards diversity in the workforce can be monitored.

The Group has implemented a number of initiatives to promote diversity during the year. Current year initiatives have focused on gender balance at management level and included the following:

- Modified recruitment processes to ensure that female candidates are represented in recruitment process;
- Female interviewers are present for manager level recruitment; and
- For all employees, the salary review process is consistent and fair to promote pay equality.

The Remuneration and Human Resources Committee initiates and monitors the development and implementation of the diversity initiatives. Management is required to report on the implementation of the policy each time the committee meets.

As at 31 July 2013 female employees represent:

- 17% of the Executive Management Team;
- 8% of senior management positions other than the Executive Management Team; and
- 50% of all employees in the Group.

There is one female director on the Board. Naseema Sparks, a member of the Remuneration and Human Resources Committee was appointed the Chair of the Remuneration and Human Resources Committee on 2 May 2013.

## Principle 4: Safeguard integrity in financial reporting

### Financial reports

The Chief Financial Officer ensures that the Company's financial reports are prepared in accordance with relevant accounting standards and that monthly financial reports are distributed to the Board. The annual and half yearly financial reports, and any other financial reports for release to the market, are presented for review by the Risk Management and Audit Committee prior to their adoption by the Board.

All annual and half-yearly financial reports presented to the Board have been reviewed by the Managing Director and Chief Financial Officer who confirm to the Board that the relevant report represents a true and fair view of the Company's financial position in all material respects and is in order for adoption by the Board.

### Risk Management and Audit Committee

The Risk Management and Audit Committee has been established by the Board to assist the Board in carrying out its risk management, accounting, auditing and financial reporting responsibilities, including oversight of:

- the Company's financial reporting principles and policies;
- verifying and safeguarding the integrity of the Company's financial reporting;
- the integrity of the Company's external financial reports;
- the Company's compliance with its legal and regulatory requirements;
- the appointment and evaluation of the Company's external auditors and review of their audits;
- the principles, policies, processes and control framework for the management of risk within the Company;
- the performance of the internal risk management and internal controls functions;
- the performance of the compliance function, including the effectiveness of the any compliance committees;
- the organisational culture in relation to risk management and compliance within the Company; and
- the investment risks being undertaken by the Group in all investment related areas and funds management activities.

The detailed responsibilities of the Risk Management and Audit Committee are set out in the Risk Management and Audit Committee Charter approved by the Board. The Charter also sets out details of the constitution of the committee to be appointed by the Board, the powers of the Board to review performance of the committee members and the responsibility for the chair of the committee to report to the Board.

In fulfilling its responsibilities, the Risk Management and Audit Committee receive regular reports from management and the external auditors. The Risk Management and Audit Committee also meets with the Company's external auditors at least twice a year, or more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the chairman of the Risk Management and Audit Committee or the Chairman of the Board.

The Risk Management and Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party. The Risk Management and Audit Committee also receive technical input and experience from the Managing Director, Chief Financial Officer and other members of the EMT, who may attend meetings by invitation.

### Audit engagement partner rotation

In accordance with the requirements of the Corporations Act, audit engagement partner rotation occurs every five years. The next partner rotation will be implemented for the consolidated financial statements of the Group for the financial year ending 30 June 2014. In the opinion of the directors, PricewaterhouseCoopers as the external auditor has conducted the audit in an effective and competent manner.

## Principle 5: Make timely and balanced disclosure

### External Communications Policy

The Company has adopted an External Communications Policy which sets out the processes that the Company has adopted to ensure compliance with its legal and regulatory obligations and to facilitate best practice communication standards to ensure that shareholders, the market and other stakeholders are provided with clear, objective, balanced and timely information about the Company's activities in an accessible manner.

### Continuous and periodic disclosure obligations

The Company is subject to continuous and periodic disclosure obligations under the ASX listing rules and the Corporations Act. The External Communications Policy describes the processes that the Company has in place to ensure compliance with these obligations. These processes include:

- the appointment of a Disclosure Officer who has overall responsibility for communications with and release of information to ASX;
- the appointment of a Disclosure Committee to review disclosures before they are released;
- restrictions on who may discuss information with external parties; and
- procedures to be followed by executives and employees who become aware of potentially disclosable information.

### Other communications

The External Communications Policy also deals with the way in which the Company communicates with external parties, such as institutional and retail investors, media and other stakeholders in order to ensure that the objectives outlined in the policy are met.

## Principle 6: Respect the rights of shareholders

### Communications strategy

The Company is committed to providing shareholders, the market and other stakeholders with clear, objective, balanced and timely information about the Company's activities in an accessible manner. The Company's approach to communications is outlined in the External Communications Policy referred to under Principle 5 above.

The Company aims to achieve best practice in external communications by:

- complying with its periodic and continuous disclosure obligations under the ASX listing rules and the Corporations Act;
- releasing appropriate information, including ASX announcements and analyst briefings, on its website;
- providing shareholders with the opportunity to correspond by phone, in writing, or via the Internet; and
- requesting the attendance of a representative from the Company's external auditor at the Annual General Meeting ('AGM') to answer questions about the audit and the preparation and content of the auditors' report.

### General meetings

The Company holds its AGM in November of each year. Shareholders are encouraged to participate in general meetings. The Company's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report.

Consistent with the Corporations Act, at least 28 days prior to the date the AGM is to be held, shareholders will be notified by the Company of the meeting's details through a Notice of Annual General Meeting, which will be accompanied by an Explanatory Memorandum. The Explanatory Memorandum seeks to explain the nature of business of the meeting in a clear and accurate manner. The full Notice of Annual General Meeting and the Explanatory Memorandum are placed on the Company's website.

All holders of fully paid ordinary shares are able to vote on all resolutions unless specifically stated otherwise in the Notice of Annual General Meeting. Shareholders who are unable to attend an AGM in person are encouraged to vote on the proposed motions by appointing a proxy.

## Principle 7: Recognise and manage risk

### Risk assessment and management

Risk management is an integral part of good business practice and the Board is committed to the highest standards of risk management, managed through good corporate governance. The Board is responsible for identifying and monitoring areas of significant business risks, with assistance from the Risk Management and Audit Committee. Corporate governance measures implemented to assist in the assessment and management of risk include:

- a documented Corporate Governance Framework, Risk Management Policy and Risk Monitoring and Reporting Framework and system encompassing risk management and compliance;
- the operational support and monitoring by the Risk and Compliance Committee composed of internal senior executives;
- notification, recording and monitoring of complaints and exceptions;
- quarterly questionnaires to management seeking confirmation of compliance with Group policies and relevant law, including insider trading and continuous disclosure obligations;
- regular reporting to the Board in respect of operations and the Group's financial position, with a monthly comparison of actual results against budget; and
- reports to the Board by appropriate members of the EMT, the external auditors and/or independent advisers, outlining the nature of particular risks.

The Board will ensure that any identified risks are properly assessed and that action is taken to implement any required enhancements to the internal control environment. In this regard, the EMT has reported to the Board on the effectiveness of the Company's management of its material business risks.

### Financial reporting

At the time of confirming the integrity of financial reports to the Board in compliance with Principle 4 the Managing Director and Chief Financial Officer confirm that the reports give a true and fair view, in all material respects, of the Group's financial position and comply in all material respects with relevant accounting standards. The written statement also confirms that the financial reports are founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board. In addition, they confirm in writing that the Company's risk management and control system is operating efficiently and effectively in all material aspects.

## Principle 8: Remunerate fairly and reasonably

The Remuneration and Human Resources Committee has been established by the Board to assist and advise in establishing frameworks, policies and practices with respect to remuneration for Board members, the Board chairperson, the Managing Director and other senior executives and employees of the Group. Those frameworks, policies and practices are designed to:

- enable the Company to attract, retain and motivate directors, executives and employees
- be fair and appropriate having regard to the performance of the Company and the relevant director, senior executive or employee;
- ensure that the level and composition of remuneration is sufficient and reasonable;
- drive executive performance which is consistent with achieving the Company's objectives; and
- demonstrate a clear relationship between senior executives' performance and remuneration.

The detailed responsibilities of the committee are set out in the Remuneration and Human Resources Committee Charter approved by the Board and include:

- setting quantitative and qualitative objectives to be achieved by the Managing Director, Chief Financial Officer and the EMT – these objectives are consistent with the Group's strategic objectives and are linked to the at risk component of the executives' remuneration;
- assessing the performance of the Managing Director, Chief Financial Officer and other members of the EMT against predetermined quantitative and qualitative objectives – the Remuneration and Human Resources Committee annually reviews whether the remuneration structure has been successful in achieving its aim and takes this into account in revising these objectives; and
- making recommendations to the Board in relation to the terms of any issue of equity-based remuneration to employees as a part of their individual package or a wider staff incentive and retention scheme, and ensuring that any such issue is made in accordance with the ASX Listing Rules.

# CONSOLIDATED FINANCIAL REPORT
**30 JUNE 2013**

## Contents



The consolidated financial report covers SFG Australia Limited ('SFGA', the 'Company' or 'Parent Entity') as a consolidated entity consisting of SFGA and the entities it controlled during the year and at year end (collectively 'the Group'). The consolidated financial report is presented in the Australian currency.

SFGA is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

SFG Australia Limited
Level 18
50 Bridge Street
Sydney NSW 2059

A description of the nature of the Group's operations and its principal activities is included in the directors' report on pages 21 to 39, which is not part of the consolidated financial report.

The consolidated financial report was authorised for issue, in accordance with a resolution of directors, on 26 September 2013. The directors have the power to amend and reissue the consolidated financial report.

Through the use of the internet, the Group ensures that its corporate reporting is timely and complete. All press releases, financial reports and other information are available via the Investor Relations page on the Group's website: www.sfgaustralia.com.au or on the ASX website: www.asx.com.au.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 5 | **155,810** | 138,085 |
| Other income | 6 | **710** | - |
| Share of net profits from associates accounted for using the equity method | | **296** | 275 |
| Staff costs | | **(62,044)** | (57,323) |
| Advertising and marketing | | **(897)** | (993) |
| Communications and information technology | | **(6,599)** | (3,264) |
| Occupancy expense | | **(6,638)** | (6,459) |
| Professional fees | | **(7,324)** | (7,385) |
| Referral fees | | **(373)** | (435) |
| Trade execution expenses | | **(308)** | (313) |
| Portfolio administration fees | | **(11,362)** | (10,906) |
| Investment manager fees | | **(9,279)** | (7,565) |
| Travel and entertainment | | **(1,140)** | (1,158) |
| Depreciation | | **(1,304)** | (1,269) |
| Amortisation | | **(5,162)** | (4,336) |
| Impairment | | **(923)** | - |
| Other expenses | | **(5,873)** | (6,167) |
| Finance costs | 7 | **(1,626)** | (1,205) |
| **Profit before income tax** | | **35,964** | 29,582 |
| Income tax expense | 8 | **(11,817)** | (18,262) |
| **Profit for the year** | | **24,147** | 11,320 |
| Other comprehensive income | | | |
| Other comprehensive income, net of tax | | **-** | - |
| **Total comprehensive income for the year** | | **24,147** | 11,320 |
| Profit for the year attributable to the owners of SFG Australia Limited | | **24,147** | 11,320 |
| Total comprehensive income for the year attributable to the owners of SFG Australia Limited | | **24,147** | 11,320 |
| | | **Cents** | **Cents** |
| **Earnings per share for profit attributable to the ordinary equity holders of SFG Australia Limited:** | | | |
| Basic earnings per share | 35 | **3.30** | 1.55 |
| Diluted earnings per share | 35 | **3.29** | 1.55 |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED BALANCE SHEET
## AS AT 30 JUNE 2013

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **28,969** | 19,178 |
| Trade and other receivables | 10 | **19,712** | 16,289 |
| Work in progress | 11 | **802** | 208 |
| Total current assets | | **49,483** | 35,675 |
| **Non-current assets** | | | |
| Investments | 12 | **4,394** | 5,410 |
| Property, plant and equipment | 13 | **4,331** | 5,466 |
| Deferred tax assets | 14 | **5,136** | 5,283 |
| Intangible assets | 15 | **188,104** | 155,035 |
| Total non-current assets | | **201,965** | 171,194 |
| **Total assets** | | **251,448** | 206,869 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **20,257** | 15,530 |
| Borrowings | 17 | **507** | 349 |
| Current tax liabilities | | **397** | 4,613 |
| Provisions | 18 | **11,120** | 10,612 |
| Deferred consideration | 19 | **6,411** | 2,365 |
| Total current liabilities | | **38,692** | 33,469 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **22,693** | 1,240 |
| Deferred tax liabilities | 20 | **12,301** | 10,453 |
| Provisions | 18 | **1,163** | 863 |
| Deferred consideration | 19 | **13,345** | 8,814 |
| Total non-current liabilities | | **49,502** | 21,370 |
| **Total liabilities** | | **88,194** | 54,839 |
| **Net assets** | | **163,254** | 152,030 |
| **EQUITY** | | | |
| Contributed equity | 21 | **145,450** | 142,522 |
| Reserves | 22 | **475** | 217 |
| Retained earnings | | **17,329** | 9,291 |
| **Total equity** | | **163,254** | 152,030 |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 30 JUNE 2013**

| | | Attributable to the owners of SFG Australia Limited | | | |
|---|---|---|---|---|---|
| | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
| **Balance at 1 July 2011** | | **141,472** | **109** | **12,531** | **154,112** |
| **Total comprehensive income for the year** | | **-** | **-** | **11,320** | **11,320** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Dividends provided for or paid | 23 | - | - | (14,560) | (14,560) |
| Employee incentive plan | | - | 108 | - | 108 |
| Shares issued as consideration for acquisition of a subsidiary | 21 | 1,050 | - | - | 1,050 |
| | | 1,050 | 108 | (14,560) | (13,402) |
| **Balance at 30 June 2012** | | **142,522** | **217** | **9,291** | **152,030** |
| **Total comprehensive income for the year** | | **-** | **-** | **24,147** | **24,147** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Dividends provided for or paid | 23 | - | - | (16,109) | (16,109) |
| Employee incentive plan | | (72) | 258 | - | 186 |
| Shares issued as consideration for acquisition of a subsidiary | 21 | 3,000 | - | - | 3,000 |
| | | 2,928 | 258 | (16,109) | (12,923) |
| **Balance at 30 June 2013** | | **145,450** | **475** | **17,329** | **163,254** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from clients (inclusive of goods and services tax) | | **171,081** | 146,016 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(126,163)** | (110,523) |
| Interest received | | **884** | 1,136 |
| Borrowing costs | | **(882)** | (497) |
| Income taxes paid | | **(15,481)** | (13,424) |
| **Net cash inflow from operating activities** | 33 | **29,439** | 22,708 |
| **Cash flows from investing activities** | | | |
| Dividends received | | **345** | 149 |
| Payments for acquisition of businesses, net of cash acquired | 29 | **(24,032)** | (6,693) |
| Deferred payments for acquisition of businesses | 19 | **(757)** | (850) |
| Payments for property, plant and equipment | 13 | **(556)** | (1,863) |
| Proceeds from sale of property, plant and equipment | | **3** | - |
| Proceeds from sale of financial assets | | **-** | 390 |
| **Net cash outflow from investing activities** | | **(24,997)** | (8,867) |
| **Cash flows from financing activities** | | | |
| Proceeds from sale and leaseback of property, plant and equipment | | **680** | 605 |
| Payments for shares acquired by Snowball Group Limited Employee Share Trust | | **(153)** | - |
| Proceeds from/(repayments of) borrowings | | **20,931** | (13,679) |
| Dividends paid to company's shareholders | 23 | **(16,109)** | (14,560) |
| **Net cash inflow/(outflow) from financing activities** | | **5,349** | (27,634) |
| **Net increase/(decrease) in cash and cash equivalents** | | **9,791** | (13,793) |
| Cash and cash equivalents at the beginning of the financial year | | **19,178** | 32,971 |
| **Cash and cash equivalents at the end of the financial year** | 9 | **28,969** | 19,178 |
| Non-cash financing and investing activities | 34 | | |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**30 JUNE 2013**

## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of SFG Australia Limited and its subsidiaries.

**(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. SFGA is a for-profit entity for the purposes of preparing financial statements.

*(i) Compliance with IFRS*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

*(ii) New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

*(iii) Historical cost convention*

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

*(iv) Critical accounting estimates*

The preparation of 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 3.

*(v) Changes to presentation – revenue and expenses presented on gross basis*

As a result of the renegotiation of the platform agreement with one of the Group's suppliers, the Group has restated the previous corresponding period result in the consolidated statement of comprehensive income to reflect the presentation of the transactions under that agreement on a gross basis. As a result Revenue from continuing operations has increased by $4,553,578 and Portfolio administration fees expense has increased by $4,553,578. There has been no change in Total comprehensive income as a result of this restatement.

*(vi) Changes to presentation – reclassification of work in progress*

Following the acquisition of Lachlan Partners, the Group has disaggregated its Work in progress in the consolidated balance sheet for the previous corresponding period which was included in Trade and other receivables on the grounds of materiality. As a result, Trade and other receivables have decreased by $208,488 and Work in progress has increased by $208,488. There has been no change in Total current assets, Total assets or Total equity as a result of this reclassification.

## Note 1. Summary of significant accounting policies (continued)

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SFGA as at 30 June 2013 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which SFGA has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group entities 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.

*(ii) Employee share trust*

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

SFGA shares held by the Snowball Group Limited Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

*(iii) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 31).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## Note 1. Summary of significant accounting policies (continued)

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Team.

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

All revenue is stated net of goods and services tax ('GST').

Revenue is recognised for the major business activities as follows:

*(i) Wealth management services*

Revenue from wealth management services (advice fees and professional fees) is recognised on an accrual basis to the extent that it is probable that the benefit will flow to the Group and the revenue can be reliably measured.

*(ii) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

*(iii) Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

*(iv) Rental income*

Rental income from sub-lease of surplus office space is recognised based upon the terms and conditions of the sub-lease agreements which are usually monthly payments in advance.

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Note 1. Summary of significant accounting policies (continued)

### (e) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

## Note 1. Summary of significant accounting policies (continued)

### (g) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Refer to note 29 for further details of the business combinations effected during the current financial year.

### (h) Impairment of assets

Goodwill and Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (i) Cash and cash equivalents

For the purpose of presentation of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

## Note 1. Summary of significant accounting policies (continued)

### (j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (k) Work in progress

Work in progress represents costs incurred and profit recognised on client services that are in progress and have not been invoiced at the reporting date. Work in progress is carried at net realisable value.

### (l) Investments and other financial assets

***Classification***

The Group classifies its financial assets as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

***Recognition and derecognition***

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## Note 1. Summary of significant accounting policies (continued)

### (l) Investments and other financial assets (continued)

***Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/losses.

Details on how the fair value of financial instruments is determined are disclosed in note 2(d).

***Impairment***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

*Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in note 1(j).

### (m) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

## Note 1. Summary of significant accounting policies (continued)

**(m) Property, plant and equipment (continued)**

Depreciation on all property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, or in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Furniture and fittings 5-15 years
- Office equipment 2-5 years
- Leasehold improvements up to 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

**(n) Intangible assets**

*(i) Goodwill*

Goodwill is measured as described in note 1(g). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

*(ii) Separately identifiable intangible assets arising from business combinations*

Separately identifiable intangible assets arising from business combinations have finite useful lives and are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of separately identifiable intangible assets over their estimated useful lives as follows:

- Client contracts and related client relationships up to 13 years
- Portfolio management rights to an income stream from funds as responsible entity up to 30 years
- Brand names up to 13 years

**(o) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Note 1. Summary of significant accounting policies (continued)

### (p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised on a straight-line basis over the term of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### (q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### (r) Provisions

Provisions for legal claims, including adviser errors, and make-good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised in profit or loss as interest expense.

### (s) Employee benefits

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as trade and other payables.

## Note 1. Summary of significant accounting policies (continued)

**(s) Employee benefits (continued)**

*(ii) Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of the services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on national Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Share-based payments*

Share-based compensation benefits are provided to employees of the Group via the SFG Australia Limited Employee Incentive Plan ('the Plan'). Information relating to this scheme is set out in note 36.

*Options*

The fair value of options granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the entity revises its estimate of the number of options that are expected to vest based on the non-market vesting conditions. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

The Plan is administered by the Snowball Group Limited Employee Share Trust. When the options are exercised or performance rights vest, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

*Performance Rights*

The fair value of performance rights granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value of performance rights granted under the Plan is measured at grant date and recognised over the vesting period, being the period over which performance against the Total Shareholder Return ('TSR') and Profit Per Share ('PPS') hurdles will be assessed.

The fair value at grant date is independently determined using Monte Carlo or binomial simulation techniques that take into account the grant date, fair market price of the underlying share at the allocation date and grant date, risk free rate of return, expected dividends, expected volatility of the underlying share price, the term of the performance rights and the vesting and performance criteria.

## Note 1. Summary of significant accounting policies (continued)

**(s) Employee benefits (continued)**

*(iii) Share-based payments (continued)*

*Performance Rights (continued)*

The fair value of the performance rights granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. At the end of each reporting period, the entity revises its estimate of the number of performance rights that are expected to vest based on the non-market vesting conditions. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

*(iv) Bonus plans*

The Group recognises a liability and an expense for bonuses where contractually obliged, or where there is a past practice that has created a constructive obligation.

*(v) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

**(t) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

**(u) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

## Note 1. Summary of significant accounting policies (continued)

### (v) Earnings per share

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; by
- the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

*(ii) 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
- weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (w) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (x) Parent Entity financial information

The financial information for the Parent Entity, SFGA, disclosed in note 37, has been prepared on the same basis as the consolidated financial statements, except as set out below.

*(i) Investments in subsidiaries and associates*

Investments in subsidiaries and associates are accounted for at cost in the financial statements of SFGA. Dividends received from associates are recognised in the Parent Entity's profit or loss when its right to receive the dividend is established.

*(ii) Tax consolidation legislation*

The Group has implemented the tax consolidation legislation.

The head entity, SFGA, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, SFGA also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate SFGA for any current tax payable assumed and are compensated by SFGA for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SFGA under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

## Note 1. Summary of significant accounting policies (continued)

**(x) Parent Entity financial information (continued)**

*(ii) Tax consolidation legislation (continued)*

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

*(iii) Financial guarantees*

Where the Company has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

*(iv) Share-based payments*

The grant by the Company of options and performance rights over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

**(y) Rounding of amounts**

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 1. Summary of significant accounting policies (continued)

### (z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

| Standard | Title | Operative date |
|---|---|---|
| AASB 9 | Financial Instruments | 1 January 2015 |
| AASB 10 | Consolidated Financial Statements | 1 January 2013 |
| AASB 11 | Joint Arrangements | 1 January 2013 |
| AASB 12 | Disclosure of Interests in Other Entities | 1 January 2013 |
| AASB 13 | Fair Value Measurement | 1 January 2013 |
| AASB 119 (revised) | Employee Benefits | 1 January 2013 |
| AASB 127 (revised) | Separate Financial Statements | 1 January 2013 |
| AASB 128 | Investments in Associates and Joint Ventures | 1 January 2013 |
| 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 | 1 January 2015 |
| 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) | 1 January 2015 |
| 2011-4 | Amendments to Australian Accounting Standards to remove Individual Key Management Personnel | 1 January 2014 |
| 2011-7 | Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards | 1 January 2013 |
| 2011-8 | Amendments to Australian Accounting Standards arising from AASB13 | 1 January 2013 |
| 2011-10 | Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) | 1 January 2013 |
| 2011-11 | Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements | 1 January 2013 |
| 2012-6 | Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures | 1 January 2013 |
| 2012-3 | Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| 2012-2 | Amendments to Australian Accounting Standard - Disclosures - Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| 2012-5 | Amendments to Australian Accounting Standard arising from Annual Improvements-2009-2011 Cycle | 1 January 2013 |
| 2013-3 | Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 |

The Australian accounting standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is permitted except for AASB 2011-4 where early adoption is not permitted.

The Group will apply the standards and amendments detailed above for the next reporting period commencing after the operative dates set out above. An initial assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Group's financial statements or accounting policies.

## Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by management and overseen by the Risk Management and Audit Committee, under policies approved by the Board of directors.

The Group holds the following financial instruments:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **28,969** | 19,178 |
| Trade receivables | **2,993** | 2,577 |
| Accrued income | **12,962** | 10,952 |
| Other receivables | **735** | 769 |
| Loans to related parties | **962** | 962 |
| Financial assets at fair value through profit or loss | **301** | 210 |
| | **46,922** | 34,648 |
| **Financial liabilities** | | |
| Trade and other payables | **20,257** | 15,530 |
| Deferred consideration | **19,756** | 11,179 |
| Borrowings | **21,366** | - |
| Finance lease liabilities | **1,834** | 1,589 |
| | **63,213** | 28,298 |

### (a) Market risk

The Group earns financial planning, portfolio administration and portfolio management revenue based mainly on the level of its funds under advice, administration and management. This revenue is primarily in the form of advice fees, portfolio administration income and portfolio management income and platform fees from both administration platform providers and fund managers. The funds under advice, administration and management is subject to market risk in that, all other things being equal, the base will increase during periods of market growth, but decrease during periods of market decline.

*Cash flow and fair value interest rate risk*

The Group's interest-bearing assets include cash and cash equivalents; however the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at floating variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value.

## Note 2. Financial risk management (continued)

### (a) Market risk (continued)

*Cash flow and fair value interest rate risk (continued)*

As at the end of the reporting period, the Group has the following floating variable rate borrowings outstanding:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Weighted average interest rate %** | **Balance $'000** | Weighted average interest rate % | Balance $'000 |
| Bills payable (gross of borrowing costs) | 4.20 | 21,366 | - | - |
| Total exposure to cash flow interest rate risk | | 21,366 | | - |

The Group's fixed rate finance lease liabilities are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

*Sensitivity*

As at 30 June 2013, if interest rates had changed from the year end rates with all other variables held constant:

| | Impact on post tax profit | | Impact on other components of equity | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Increased by 50 basis points (0.50%) | **(75)** | - | **-** | - |
| Decreased by 25 basis points (0.25%) | **37** | - | **-** | - |

*Price risk*

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group's exposure to price risk from its investments in equity securities within reasonably expected movements would be immaterial in terms of the impact on profit or loss or other components of equity.

### (b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that services are performed for customers with an appropriate credit history and cash is held with financial institutions of high credit-worthiness.

Credit risk arises in relation to financial guarantees given to certain parties (see notes 26 and 37 for details). Such guarantees are provided in exceptional circumstances and are subject to specific Board approval.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The Group holds cash and short-term bank deposits totalling $28,969,315 as at 30 June 2013 (2012: $19,178,257) with financial institutions holding AA and A ratings (2012: AA and A ratings).

Details of the Group's security arrangements in relation to loans to other related parties are set out in note 28(f).

## Note 2. Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows.

*Financing arrangements*

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

| | Note | **2013 $'000** | 2012 $'000 |
|---|---|---|---|
| **Variable rate** | | | |
| Expiring within five years (bill facility) | 17(b) | **54,081** | 45,350 |
| | | **54,081** | 45,350 |

The secured bill facility is made available for funding acquisitions, including the discharge of deferred consideration payments on acquisitions completed during previous years. The drawdown of funds under this facility to settle existing deferred consideration obligations will be at contracted dates.

*Maturities of financial liabilities*

The following tables analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 6 months $'000 | Between 6 and 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Trade and other payables | 20,257 | - | - | - | - | 20,257 | 20,257 |
| Deferred consideration | 5,234 | 1,300 | 3,993 | 11,073 | - | 21,600 | 19,756 |
| Borrowings | - | - | 21,366 | - | - | 21,366 | 21,366 |
| Finance lease liabilities | 316 | 316 | 632 | 817 | - | 2,081 | 1,834 |
| | **25,807** | **1,616** | **25,991** | **11,890** | **-** | **65,304** | **63,213** |
| **2012** | | | | | | | |
| Trade and other payables | 15,530 | - | - | - | - | 15,530 | 15,530 |
| Deferred consideration | 350 | 2,100 | 4,718 | 5,383 | - | 12,551 | 11,179 |
| Borrowings | - | - | - | - | - | - | - |
| Finance lease liabilities | 236 | 236 | 470 | 927 | - | 1,869 | 1,589 |
| | 16,116 | 2,336 | 5,188 | 6,310 | - | 29,950 | 28,298 |

# Note 2. Financial risk management (continued)

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The financial assets at fair value through profit or loss are valued using inputs other than quoted prices that are observable for the asset, either directly (as prices) or indirectly (derived from prices). The fair value measurement used meets the definition of level 2 under the AASB 7 *Financial Instruments: Disclosures* fair value measurement hierarchy.

The financial liabilities at fair value through profit or loss are primarily valued using other techniques, such as discounted cash flow analysis, using inputs which are not based on observable market data. Consequently, these instruments are classified as level 3 under the fair value measurement hierarchy.

As disclosed in the prior financial year, the Group has entered into a Put and Call Option Agreement ('the Agreement') with QT Mutual Bank Limited ('QTMB'). Under the Agreement, the Group grants a Call option to QTMB and QTMB grants a Put option to the Group over all of the shares held by the Group in QT Financial Planning Pty Ltd (formerly QTCU Financial Planning Pty Ltd). The Call and Put Options become exercisable on the occurrence of certain events.

The measurement of the fair value of the Agreement meets the definition of level 3 under AASB 7 *Financial Instruments: Disclosures* fair value measurement hierarchy. The fair value of the Agreement at 30 June 2013 has been determined to be nil (30 June 2012: nil).

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar instruments.

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2013 and 30 June 2012:

| | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **At 30 June 2013** | | | | |
| **Assets** | | | | |
| *Financial assets at fair value through profit or loss* | | | | |
| Unlisted securities | - | 265 | 36 | 301 |
| **Liabilities** | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | |
| Deferred consideration | - | - | (19,756) | (19,756) |
| **At 30 June 2012** | | | | |
| **Assets** | | | | |
| *Financial assets at fair value through profit or loss* | | | | |
| Unlisted securities | - | 210 | - | 210 |
| **Liabilities** | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | |
| Deferred consideration | - | - | (11,179) | (11,179) |

There were no transfers between levels during the financial year.

## Note 2. Financial risk management (continued)

**(d) Fair value estimation (continued)**

*Movements in level 3 financial instruments*

The following table presents the movements in the Group's level 3 financial instruments for the years ended 30 June 2013 and 30 June 2012:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Opening balance | **(11,179)** | (8,666) |
| Acquired through business combinations | **(9,164)** | (2,684) |
| (Charged)/credited to the income statement: | | |
| Gain recognised in profit or loss | **664** | - |
| Unwinding of discount | **(798)** | (679) |
| Amounts paid during the year | **757** | 850 |
| Closing balance | **(19,720)** | (11,179) |

The fair value of the deferred consideration is calculated as the present value of the expected cash flows using a discount rate that reflects the Group's incremental borrowing cost. Expected cash flows are initially determined at the time of the acquisition based on the acquired businesses' historical results, synergies expected to arise on acquisition, the budgeted results for the acquired business and forecasts approved by management covering the deferred consideration period.

The deferred consideration amounts payable can rise and fall depending on performance hurdles achieved during the deferral period. Deferred consideration, however, will be nil or greater as no claw back of purchase price already paid is possible.

## Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Estimated impairment of goodwill and separately identifiable intangible assets*

The Group tests annually whether goodwill and separately identifiable intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

## Note 3. Critical accounting estimates and judgements (continued)

*Long service leave provision*

As discussed in note 1(s), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Share based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Monte-Carlo model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Business combinations*

As discussed in note 1(g), business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## Note 4. Segment information

**(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the Executive Management Team ('EMT'). The Group is divided into three separate businesses: Professional Advice model, Affiliate Adviser model and B2B Adviser Services model.

The Group's Professional Advice model comprises the Shadforth Financial Group, Outlook Financial Solutions and Lachlan Partners advice businesses, which employ 174 client facing financial advisers and accountants in 18 offices nationally. The Group owns 100% of these businesses. The Professional Advice model operates through a centralised structure to maximise efficiency and productivity throughout the business.

The Affiliate Adviser model comprises the Western Pacific Financial Group dealer group model. The B2B Adviser Services model comprises Actuate Alliance Services, the Group's third party relationships where the Group provides a combination of adviser support and Australian Financial Services ('AFS') licensing services.

*Geographical segments*

The Group operated only in Australia during the reporting period.

## Note 4. Segment information (continued)

### (b) Segment information provided to the EMT

The segment information provided to the EMT for the year ended 30 June 2013 is as follows:

| Year ended 30 June 2013 | Professional Advice Model $'000 | Affiliate Adviser Model $'000 | B2B Adviser Services Model $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Segment net operating revenue** | 118,843 | 8,655 | 6,494 | 133,992 |
| Share of profits of associates accounted for using the equity method | - | - | 296 | 296 |
| **Segment EBITDA** | **38,315** | **2,319** | **3,461** | **44,095** |
| Interest income | 617 | 181 | 86 | 884 |
| Finance costs | (1,093) | (356) | (177) | (1,626) |
| Depreciation and amortisation | (4,928) | (1,058) | (480) | (6,466) |
| Impairment | - | - | (923) | (923) |
| **Profit before income tax** | **32,911** | **1,086** | **1,967** | **35,964** |

| Year ended 30 June 2012 | Professional Advice Model $'000 | Affiliate Adviser Model $'000 | B2B Adviser Services Model $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Segment net operating revenue** | 103,305 | 8,810 | 5,876 | 117,991 |
| Share of profits of associates accounted for using the equity method | - | - | 275 | 275 |
| **Segment EBITDA** | **29,461** | **1,787** | **4,008** | **35,256** |
| Interest income | 832 | 219 | 85 | 1,136 |
| Finance costs | (789) | (300) | (116) | (1,205) |
| Depreciation and amortisation | (4,250) | (978) | (377) | (5,605) |
| Impairment | - | - | - | - |
| **Profit before income tax** | **25,254** | **728** | **3,600** | **29,582** |

Segment net operating revenue is reconciled to Revenue from continuing operations by segment in note 4(c).

## Note 4. Segment information (continued)

### (c) Other segment information

*(i) Accounting policies*

The EMT reviews its operating revenue net of portfolio administration charges incurred in the administration of the Group's platforms, investment management fees and fund expense recoveries in relation to the Mosaic managed investment schemes, and trade execution expenses directly attributed to stock broking revenue.

Segment net operating revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

Segment net operating revenue reconciles to total revenue from continuing operations as follows:

| Year ended 30 June 2013 | Professional Advice Model $'000 | Affiliate Adviser Model $'000 | B2B Adviser Services Model $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Segment net operating revenue** | 118,843 | 8,655 | 6,494 | 133,992 |
| Interest received | 617 | 181 | 86 | 884 |
| Non-operational revenue | 629 | 66 | - | 695 |
| Portfolio administration fees | 5,563 | 1,629 | 4,170 | 11,362 |
| Investment manager fees | 7,359 | 1,383 | 537 | 9,279 |
| Trade execution expenses | 308 | - | - | 308 |
| **Sub-total** | **133,319** | **11,914** | **11,287** | **156,520** |
| Revenue from continuing operations | 132,628 | 11,901 | 11,281 | 155,810 |
| Other income | 691 | 13 | 6 | 710 |
| | **133,319** | **11,914** | **11,287** | **156,520** |

| Year ended 30 June 2012 | Professional Advice Model $'000 | Affiliate Adviser Model $'000 | B2B Adviser Services Model $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Segment net operating revenue** | 103,305 | 8,810 | 5,876 | 117,991 |
| Interest received | 832 | 219 | 85 | 1,136 |
| Non-operational revenue | - | - | 174 | 174 |
| Portfolio administration fees | 5,434 | 1,375 | 4,097 | 10,906 |
| Investment manager fees | 4,850 | 2,186 | 529 | 7,565 |
| Trade execution expenses | 313 | - | - | 313 |
| **Revenue from continuing operations** | **114,734** | **12,590** | **10,761** | **138,085** |

Except for the offsetting of revenue and expenses as described above, segment information is prepared in conformity with the accounting policies of the Group as disclosed in note 1 and Accounting Standard AASB 8 *Operating Segments*.

## Note 4. Segment information (continued)

### (c) Other segment information (continued)

*(ii) Segment assets and segment liabilities*

The Group does not currently manage its assets and liabilities on an individual segment basis. Accordingly, assets and liabilities have not been split into individual segments.

## Note 5. Revenue

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **From continuing operations** | | |
| *Sales revenue* | | |
| Wealth management services | **153,842** | 135,780 |
| | **153,842** | 135,780 |
| *Other revenue* | | |
| Interest | **884** | 1,136 |
| Rents and sub-lease rentals | **293** | 424 |
| Other | **791** | 745 |
| | **1,968** | 2,305 |
| Total revenue | **155,810** | 138,085 |

## Note 6. Other income

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Fair value gains on financial assets at fair value through profit or loss | | **82** | - |
| Fair value gain from derecognition of deferred consideration payable | 19 | **628** | - |
| Total other income | | **710** | - |

## Note 7. Expenses

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Profit before income tax includes the following specific expenses:** | | | |
| *Finance costs* | | | |
| Interest and finance charges paid or payable | | **1,626** | 1,205 |
| Rental expense relating to operating leases | | | |
| Minimum lease payments | | **5,798** | 5,391 |
| Net loss on disposal of property, plant and equipment | | **590** | 850 |
| Impairment of investment in associates | 12 | **923** | - |

## Note 8. Income tax expense

### (a) Income tax expense

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current tax | **11,384** | 11,403 |
| Deferred tax | **551** | 2,641 |
| Adjustments for current income tax of prior periods | **(118)** | 4,218 |
| | **11,817** | 18,262 |

Income tax expense is wholly attributable to profit from continuing operations.

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Deferred income tax expense included in income tax expense comprises: | | | |
| Decrease in deferred tax assets | 14 | **2,247** | 4,043 |
| Decrease in deferred tax liabilities | 20 | **(1,696)** | (1,402) |
| | | **551** | 2,641 |

## Note 8. Income tax expense (continued)

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit before income tax expense | **35,964** | 29,582 |
| Tax at the Australian tax rate of 30% (2012: 30%) | **10,789** | 8,875 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Intangible assets acquired through business combinations in prior periods | **-** | 4,837 |
| Amortisation and impairment | **384** | 212 |
| Entertainment | **156** | 127 |
| Fair value gain from derecognition of deferred consideration payable | **(188)** | - |
| Notional interest on deferred consideration | **244** | 150 |
| Share of associates profit | **(89)** | (83) |
| Share based payments | **35** | 33 |
| Other non-deductible expenses | **201** | 141 |
| Non-deductible transaction costs on acquisitions | **511** | - |
| Write off of deferred tax liabilities in relation to certain intangibles | **-** | (248) |
| | **12,043** | 14,044 |
| Adjustments for current and deferred tax of prior periods | **(226)** | 4,218 |
| Income tax expense | **11,817** | 18,262 |

### (c) Tax losses

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Unused capital losses for which no deferred tax asset has been recognised | **2,049** | 902 |
| Potential tax benefit at 30% | **615** | 271 |

The unused capital losses were incurred by the tax consolidated group or were transferred to the head company from joining entities at acquisition.

## Note 9. Cash and cash equivalents

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash at bank and on hand | **26,969** | 19,178 |
| Cash on term deposit | **2,000** | - |
| | **28,969** | 19,178 |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balances as above | **28,969** | 19,178 |
| Balances per statement of cash flows | **28,969** | 19,178 |

### (b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

## Note 10. Trade and other receivables

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Trade receivables | | **3,814** | 2,725 |
| Provision for impairment of trade receivables | (a) | **(821)** | (148) |
| | | **2,993** | 2,577 |
| Accrued income | | **12,962** | 10,952 |
| Loans to other related parties | 28 | **962** | 962 |
| Prepayments | | **2,060** | 1,237 |
| Other receivables | | **735** | 561 |
| | | **19,712** | 16,289 |

## Note 10. Trade and other receivables (continued)

### (a) Impaired trade receivables

As at 30 June 2013 current trade receivables of the Group with a carrying value of $821,068 (2012: $148,428) were impaired. The amount of the provision was $821,068 (2012: $148,428). The individually impaired receivables mainly relate to retail clients, whom are in difficult economic situations.

The ageing of these receivables is as follows:

| $'000 | Less than 3 months | Between 3 to 6 months | Between 6 - 12 months | Total |
|---|---|---|---|---|
| Year ended 30 June 2013 | **-** | **584** | **237** | **821** |
| Year ended 30 June 2012 | - | 55 | 93 | 148 |

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance | **148** | 22 |
| Provision for impairment recognised during the year | **255** | 148 |
| Provisions acquired through business combinations | **544** | - |
| Receivables written off during the year as uncollectible | **(63)** | - |
| Unused amount reversed | **(63)** | (22) |
| Closing balance | **821** | 148 |

The creation and release of the provision for impairment of trade receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### (b) Past due but not impaired

As at 30 June 2013, trade receivables of $1,264,771 (2012: $536,834) were past due but not impaired. These relate to a number of independent clients for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| $'000 | Less than 3 months | Between 3 to 6 months | Between 6 - 12 months | Total |
|---|---|---|---|---|
| Year ended 30 June 2013 | **1,072** | **167** | **26** | **1,265** |
| Year ended 30 June 2012 | 451 | 43 | 43 | 537 |

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold collateral in relation to these receivables.

### (c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

There is no significant concentration of credit risk, as the Group has a large number of clients. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of trade and other receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group.

## Note 11. Work in progress

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Work in progress | **802** | 208 |
| | **802** | 208 |

## Note 12. Investments

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Shares in associates | 31 | **4,093** | 5,200 |
| Financial assets at fair value through profit or loss | | **301** | 210 |
| | | **4,394** | 5,410 |

### (a) Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

### (b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include an investment in a unit trust that holds listed and unlisted Australian equity securities. Changes in fair value of financial assets at fair value through profit or loss are recorded in other income in profit or loss (note 6).

### (c) Risk exposure and fair value measurements

Information about the Group's exposure to price risk and about the methods and assumptions used in determining fair value is provided in note 2.

### (d) Impairment

During the year the Group recorded impairment of $923,177 in relation to its investment in Duncan Dovico Holdings Pty Limited ('DDH'). The investment has been written down based on the Group's assessment of the present value of estimated future cash flows for the investment. The Group's strategy is to focus its investment, including in accounting and other related services, through wholly-owned interests within its Professional Advice operating segment.

## Note 13. Property, plant and equipment

| | Furniture and Fittings $'000 | Office Equipment $'000 | Leasehold Improvements $'000 | Total $'000 |
|---|---|---|---|---|
| **At 1 July 2011** | | | | |
| Cost or fair value | 1,917 | 8,630 | 4,003 | **13,642** |
| Accumulated depreciation | (1,038) | (6,925) | (671) | **(7,726)** |
| Net book amount | 879 | 1,705 | 3,332 | **5,916** |
| **Year ended 30 June 2012** | | | | |
| Opening net book amount | 879 | 1,705 | 3,332 | **5,916** |
| Additions | 6 | 784 | 1,096 | **1,886** |
| Acquisition of subsidiary | 3 | 6 | - | **9** |
| Disposals | (226) | (11) | (839) | **(1,076)** |
| Depreciation charge | (100) | (579) | (590) | **(1,269)** |
| Closing net book amount | 562 | 1,905 | 2,999 | **5,466** |
| **At 30 June 2012** | | | | |
| Cost or fair value | 1,286 | 9,272 | 3,762 | **14,320** |
| Accumulated depreciation | (724) | (7,367) | (763) | **(8,854)** |
| Net book amount | 562 | 1,905 | 2,999 | **5,466** |
| **Year ended 30 June 2013** | | | | |
| Opening net book amount | 562 | 1,905 | 2,999 | **5,466** |
| Additions | - | 473 | 83 | **556** |
| Acquisition of subsidiary | 23 | 144 | 31 | **198** |
| Disposals | (405) | (131) | (49) | **(585)** |
| Depreciation charge | (68) | (634) | (602) | **(1,304)** |
| Closing net book amount | 112 | 1,757 | 2,462 | **4,331** |
| **At 30 June 2013** | | | | |
| Cost or fair value | 442 | 9,448 | 3,793 | **13,683** |
| Accumulated depreciation | (330) | (7,691) | (1,331) | **(9,352)** |
| Net book amount | 112 | 1,757 | 2,462 | **4,331** |

### (a) Leased assets

Leasehold improvements include the following amounts where the Group is a lessee under a finance lease:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| *Leasehold improvements* | | |
| Cost | **2,474** | 1,794 |
| Accumulated depreciation | **(1,018)** | (584) |
| Net book amount | **1,456** | 1,210 |

## Note 13. Property, plant and equipment (continued)

### (b) Non-current assets pledged as security

Refer to note 17 for information on non-current assets pledged as security by the Group.

## Note 14. Deferred tax assets

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Future deductible capital expenditure | **1,096** | 1,147 |
| Employee benefits | **2,684** | 2,363 |
| Other | **1,356** | 1,773 |
| | **5,136** | 5,283 |
| Deferred tax assets expected to be recovered within 12 months | **4,153** | 4,276 |
| Deferred tax assets expected to be recovered after more than 12 months | **983** | 1,007 |
| | **5,136** | 5,283 |

### (a) Movements in deferred tax assets:

| | **Future deductible capital expenditure $'000** | **Employee benefits $'000** | **Rights to future income $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|
| At 1 July 2011 | 950 | 2,087 | 2,736 | 598 | 6,371 |
| Movement: | | | | | |
| (Charged)/credited to profit or loss | (6) | 208 | (4,839) | 594 | (4,043) |
| Transfer to current tax liabilities | 203 | 68 | - | 546 | 817 |
| Transfer to deferred tax liabilities | - | - | 2,103 | - | 2,103 |
| Acquisition of subsidiary | - | - | - | 35 | 35 |
| At 30 June 2012 | 1,147 | 2,363 | - | 1,773 | 5,283 |
| Movement: | | | | | |
| (Charged)/credited to profit or loss | (77) | (29) | - | (2,141) | (2,247) |
| Acquisition of subsidiary | 26 | 350 | - | 1,724 | 2,100 |
| At 30 June 2013 | **1,096** | **2,684** | **-** | **1,356** | **5,136** |

### (b) Other deferred tax assets

Other deferred tax assets include benefits arising in future periods from provisions for doubtful debts, provision for make good of leased premises, lease incentives and tax losses acquired as part of business combinations.

## Note 15. Intangible assets

| | Brand names and other rights $'000 | Client contracts and related relationships $'000 | Goodwill $'000 | Software and websites $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2011** | | | | | |
| Cost | 400 | 81,375 | 261,199 | 1,600 | 344,574 |
| Accumulated amortisation | - | (45,815) | (149,693) | (1,040) | (196,548) |
| Net book amount | 400 | 35,560 | 111,506 | 560 | 148,026 |
| **Year ended 30 June 2012** | | | | | |
| Opening net book amount | 400 | 35,560 | 111,506 | 560 | 148,026 |
| Additions – business combinations | - | 3,343 | 7,864 | - | 11,207 |
| Disposals | - | (73) | - | - | (73) |
| Amortisation charge | - | (3,805) | - | (320) | (4,125) |
| Closing net book amount | 400 | 35,025 | 119,370 | 240 | 155,035 |
| **At 30 June 2012** | | | | | |
| Cost | 400 | 84,718 | 269,063 | 1,600 | 355,781 |
| Accumulated amortisation | - | (49,693) | (149,693) | (1,360) | (200,746) |
| Net book amount | 400 | 35,025 | 119,370 | 240 | 155,035 |
| **Year ended 30 June 2013** | | | | | |
| Opening net book amount | 400 | 35,025 | 119,370 | 240 | 155,035 |
| Additions – business combinations | - | 10,588 | 27,395 | - | 37,983 |
| Disposals | - | - | - | - | - |
| Amortisation charge | - | (4,674) | - | (240) | (4,914) |
| Closing net book amount | 400 | 40,939 | 146,765 | - | 188,104 |
| **At 30 June 2013** | | | | | |
| Cost | 400 | 95,306 | 296,458 | 1,600 | 393,764 |
| Accumulated amortisation | - | (54,367) | (149,693) | (1,600) | (205,660) |
| Net book amount | 400 | 40,939 | 146,765 | - | 188,104 |

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units ('CGU') identified according to operating segment. Management has concluded that the Group's goodwill should be allocated to the Professional Advice model for the purpose of testing goodwill for impairment at 30 June 2013 in line with the operating segment as set out in note 4.

The recoverable amount of a CGU is determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for an average business in the wealth management industry.

## Note 15. Intangible assets (continued)

### (b) Key assumptions used for value-in-use calculations

The following assumptions have been used for the analysis of the CGU. Management determines budgeted gross margin based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the financial planning industry. The calculations are based around the following rates: growth rate: 5% (2012: 5%), weighted average cost of capital ('WACC'): 15% (2012: 15%), and terminal rate: 1% (2012: 2%).

The value-in-use calculation concluded that the recoverable amount of the goodwill for the identified CGU exceeds the carrying amount of goodwill.

### (c) Impact of possible changes in key assumptions

Given the reasonable basis on which the value-in-use calculations for the CGU were prepared, the Group does not consider a change in any of the key assumptions to be likely. Management acknowledges that ongoing regulatory reform may necessitate changes to business operations going forward, but believe the Group's business proposition, following strategic initiatives (including acquisitions) implemented in the 2013 financial year and still to be implemented in 2014, is strong and resilient and, based on announcements to-date and information current as at the date of this report, is comfortable with the key assumptions used in the value-in-use calculations (as detailed above).

Management, however, has tested the sensitivity of the value-in-use calculations to a change in the revenue growth and discount rate assumptions and notes the following:

- a reduction in the growth assumption of 1.0%, from 5.0% to 4.0%, has no impact on the carrying value of the goodwill in the CGU; and
- an increase in the discount rate assumption of 5%, from 15% to 20%, has no impact on the carrying value of the goodwill in the CGU.

### (d) Impairment charge

There was no impairment in the carrying amount of intangible assets for the CGU in both the 2013 and 2012 financial years.

## Note 16. Trade and other payables

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Trade payables | **1,178** | 686 |
| Other payables | **4,441** | 2,909 |
| Accrued expenses | **14,638** | 11,935 |
| | **20,257** | 15,530 |

## Note 17. Borrowings

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Lease liability – secured | **507** | 349 |
| | **507** | 349 |
| **Non-current** | | |
| Lease liability – secured | **1,327** | 1,240 |
| Bills payable – secured | **21,366** | - |
| | **22,693** | 1,240 |
| Total borrowings | **23,200** | 1,589 |
| Total secured liabilities | **23,200** | 1,589 |

### (a) Secured liabilities and assets pledged as security

The lease liabilities of the Group are secured by the leased assets as recognised in the consolidated financial statements, as set out in note 13. Rights to the leased assets revert to the lessor in the event of default.

The bills payable of the Group are secured by:

- a first registered fixed and floating charge over all the assets and undertakings of the Group;
- unlimited guarantee and indemnity given by all entities in the Group;
- a registered equitable mortgage over encumbered assets of the Group; and
- a negative pledge over all assets of the Group.

### (b) Financing arrangements

At the end of the reporting period the Group had access to the following lines of credit:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *Bill acceptance facility* | | |
| Facility limit | **80,000** | 50,000 |
| Amounts drawn at the end of the reporting period | **(21,366)** | - |
| Contingent amounts considered to be drawn under the facility agreement | **(4,553)** | (4,650) |
| Unused facility available at the end of the reporting period | **54,081** | 45,350 |

The contingent amounts considered to be drawn under the facility agreement comprise financial guarantees, as disclosed in note 26, which will only give rise to a liability where the Group fails to perform its contractual obligation. No liability has been recognised by the Group in relation to these guarantees.

The bank facilities are subject to periodic reviews and compliance certificates, and the continuance of a satisfactory credit rating. The unused bill facility is made available for funding acquisitions, including the discharge of deferred consideration payments on acquisitions completed during previous years.

## Note 17. Borrowings (continued)

### (c) Fair value

The carrying amounts and fair values of borrowings at the end of the reporting period are:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying amount $'000** | **Fair value $'000** | **Carrying amount $'000** | **Fair value $'000** |
| **Non-traded financial liabilities** | | | | |
| Lease liability | 1,834 | 1,834 | 1,589 | 1,589 |
| Bills payable | 21,366 | 21,366 | - | - |
| Net book amount | 23,200 | 23,200 | 1,589 | 1,589 |

### (d) Risk exposures

Details of the Group's exposure to risks arising from borrowings are set out in note 2.

## Note 18. Provisions

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits – annual leave | **3,235** | 2,683 |
| Employee benefits – long service leave | **4,548** | 4,331 |
| Other | **3,337** | 3,598 |
| | **11,120** | 10,612 |
| **Non-current** | | |
| Employee benefits – long service leave | **1,163** | 863 |
| | **1,163** | 863 |
| Total provisions | **12,283** | 11,475 |

### (a) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next twelve months. The following amounts reflect current long service leave that is not expected to be taken or paid within the next twelve months.

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Current long service leave obligation expected to be settled after 12 months | **3,755** | 3,578 |

## Note 18. Provisions (continued)

### (b) Movement in other provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| 2013 | Adviser error provision (c) $'000 | Make good provision (d) $'000 | Short term Incentive provision $'000 | Sundry (e) $'000 | Total Other Provisions $'000 |
|---|---|---|---|---|---|
| Carrying amount at start of year | 551 | 440 | 2,176 | 431 | 3,598 |
| Acquired through business combinations | - | 16 | - | - | 16 |
| Charged to the income statement: | | | | | |
| Additional provisions recognised | 327 | 98 | 1,968 | 985 | 3,378 |
| Unused amounts reversed | (189) | - | - | (140) | (329) |
| Unwinding of discount | - | - | - | 14 | 14 |
| Amounts used during the year | (346) | (144) | (2,176) | (674) | (3,340) |
| Carrying amount at end of year | **343** | **410** | **1,968** | **616** | **3,337** |

### (c) Adviser error provision

Provision is made for the estimated liability arising from errors and omissions in connection with the provision of financial advice and other services. These claims are expected to be settled in the next financial year.

### (d) Make good provision

The Group is required to restore the leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

### (e) Sundry provision

Provision is made for other miscellaneous expenditure, including audit, taxation and other professional services, onerous leases and fringe benefits tax, which are expected to be settled in the next financial year.

## Note 19. Deferred consideration

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Deferred consideration – business combinations | **6,411** | 2,365 |
| **Non-current** | | |
| Deferred consideration – business combinations | **13,345** | 8,814 |
| Total deferred consideration | **19,756** | **11,179** |

## Note 19. Deferred consideration (continued)

### (a) Deferred consideration – business combinations

The deferred consideration amounts arise from business combinations undertaken by the Group, as set out in note 29. The amount payable in relation to each of the acquisitions can rise and fall depending on performance hurdles achieved during the deferral period.

### (b) Movements in deferred consideration:

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Opening balance | | **11,179** | 8,666 |
| Acquired through business combinations | 29 | **9,164** | 2,684 |
| Charged/(credited) to the income statement: | | | |
| Fair value gain from derecognition of deferred consideration payable | | **(628)** | - |
| Unwinding of discount | | **798** | 679 |
| Amounts paid during the year | | **(757)** | (850) |
| Closing balance | | **19,756** | 11,179 |

### (c) Risk exposures

Details of the Group's exposure to risks arising from deferred consideration are set out in note 2.

## Note 20. Deferred tax liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Intangible assets | **11,943** | 10,441 |
| Accrued income | **241** | 12 |
| Other | **117** | - |
| | **12,301** | 10,453 |
| Deferred tax liabilities expected to be settled within 12 months | **1,368** | 1,142 |
| Deferred tax liabilities expected to be settled after more than 12 months | **10,933** | 9,311 |
| | **12,301** | 10,453 |

## Note 20. Deferred tax liabilities (continued)

### (a) Movements in deferred tax liabilities:

| | Intangible assets $'000 | Accrued income $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 July 2011 | 8,735 | - | - | 8,735 |
| Movement: | | | | |
| (Charged)/credited to profit or loss | (1,394) | - | - | (1,394) |
| Transfer from deferred tax assets | 2,103 | - | - | 2,103 |
| Acquired through business combinations | 997 | 12 | - | 1,009 |
| At 30 June 2012 | 10,441 | 12 | - | 10,453 |
| Movement: | | | | |
| (Charged)/credited to profit or loss | (1,674) | (139) | 117 | (1,696) |
| Acquired through business combinations | 3,176 | 368 | - | 3,544 |
| At 30 June 2013 | **11,943** | **241** | **117** | **12,301** |

## Note 21. Contributed equity

| | Number of shares | | $'000 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Ordinary shares** | | | | |
| Fully paid | 734,531,160 | 729,458,238 | 145,450 | 142,522 |

### (a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## Note 21. Contributed equity (continued)

### (b) Movements in ordinary share capital

Movements in ordinary share capital are as follows:

| | | Number of shares | $'000 |
|---|---|---|---|
| 1 July 2011 | Opening balance | 726,541,572 | 141,472 |
| 11 November 2011 | Issue of shares as purchase consideration | 2,916,666 | 1,050 |
| 30 June 2012 | Balance | 729,458,238 | 142,522 |
| 18 September 2012 | Employee share scheme issue | 18,643 | 4 |
| 25 December 2012 | Employee share scheme issue | 128,170 | 25 |
| 22 February 2013 | Issue of shares as purchase consideration | 4,926,109 | 3,000 |
| 31 March 2013 | Employee share scheme issue | 248,843 | 52 |
| 31 March 2013 | On-market share acquisition by Snowball Group Limited Employee Share Trust | (248,843) | (153) |
| 30 June 2013 | Balance | 734,531,160 | 145,450 |

### (c) Options and performance rights

Details of options and performance rights which were granted, vested, exercised and lapsed during the financial year and options and performance rights outstanding at the end of the financial year under the SFG Australia Limited Employee Incentive Plan are set out in note 36.

### (d) Issue of shares as purchase consideration

During the year the Group issued 4,926,109 ordinary shares as purchase consideration for the acquisition of Lachlan Partners and its controlled entities.

In the previous financial year, the Group issued 2,916,666 ordinary shares as purchase consideration for the acquisition of Phaz Pty Limited and its controlled entities (acquired as 'Jeena').

### (e) 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 continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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.

Consistent with others in the industry, the Group monitors capital to ensure that optimal structure is maintained. As part of this process, the Group calculates a number of financial ratios on an ongoing basis. These ratios include the interest cover ratio and the leverage ratio.

A number of the controlled entities of the Company hold AFS Licenses in order to conduct their operating activities. Each license imposes specific operational and capital requirements on the holder. Management monitors the compliance of each licensee with the requirements of their AFSL conditions throughout the year. Capital requirements are managed on an individual and aggregate basis through sweep arrangements between licensees and their parent entities and in certain cases through the provision of letters of guarantee from the listed Parent Entity to the licensed undertakings. There have been no material instances of non-compliance with externally imposed capital requirements during the year.

## Note 22. Reserves

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Share based payments reserve | **475** | 217 |
| | **475** | 217 |

### (a) Movements in reserves:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *Share based payments reserve* | | |
| Opening balance | **217** | 109 |
| Share based payment expense | **340** | 108 |
| Performance rights vested during the year | **(82)** | - |
| Closing balance | **475** | 217 |

### (b) Nature and purpose of reserves

*Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of:

- options issued but not exercised; and
- performance rights granted but not vested.

## Note 23. Dividends

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Ordinary shares** | | |
| Final dividend for the year ended 30 June 2012 of 1 cent (2011 – 1 cent) per fully paid share | **7,295** | 7,265 |
| Interim dividend for the year ended 30 June 2013 of 1.2 cents (2011 – 1 cent) per fully paid share | **8,814** | 7,295 |
| Total dividends provided for or paid | **16,109** | 14,560 |

### (a) Dividends not recognised at year end

In addition to the above dividends, since the end of the financial year the directors have determined to pay a final dividend of 1.4 cents per fully paid ordinary share (2012 – 1 cent) fully franked based on tax paid at 30%.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| The aggregate amount of the proposed dividend expected to be paid on 24 October 2013 out of retained profits for 30 June 2013, but not recognised as a liability at year end: | **10,283** | 7,295 |

## Note 23. Dividends (continued)

### (b) Franked dividends

The franked portions of the final dividends determined after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2014.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% | **29,154** | 20,489 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $4,407,187 (2012: $3,126,250).

## Note 24. Key management personnel disclosures

### (a) Key management personnel compensation

| | 2013 $ | 2012 $ |
|---|---|---|
| Short-term employee benefits | **4,225,157** | 4,086,265 |
| Post-employment benefits | **136,512** | 145,458 |
| Long-term benefits | **(42,470)** | 45,660 |
| Termination benefits | **-** | 1,808,863 |
| Share-based payments | **270,612** | 73,953 |
| | **4,589,811** | 6,160,169 |

Detailed remuneration disclosures are provided in the remuneration report on pages 28 to 37.

## Note 24. Key management personnel disclosures (continued)

**(b) Equity instrument disclosures relating to key management personnel**

*Share holdings*

The numbers of ordinary shares in the Company held during the financial year by each director of the Group and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| 2013 Ordinary shares | Balance at the start of the year | Received on exercise of options | Received on vesting of rights | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Non-executive directors** | | | | | |
| P J Promnitz | 100,000 | - | - | - | 100,000 |
| J B Gannon | 33,899,099 | - | - | - | 33,899,099 |
| E R Dodd | 100,000 | - | - | - | 100,000 |
| G E Maloney | 100,000 | - | - | - | 100,000 |
| N Sparks | - | - | - | - | - |
| **Executive directors** | | | | | |
| A K Fenning | 26,514,909 | - | - | - | 26,514,909 |
| J P Kilkenny | 7,867,841 | - | - | 1,142,856 | 9,010,697 |
| **Other key management personnel** | | | | | |
| J S Cowan | 181,500 | - | - | - | 181,500 |
| L W Y Fox | 1,067,500 | - | - | - | 1,067,500 |
| N R M Bedding | 13,022,662 | - | - | (4,151,811) | 8,870,851 |
| P Pezzi [1] | - | - | - | 762,629 | 762,629 |
| D A Pitcher | - | - | - | - | - |
| S R Manion [2] | 1,341,095 | - | 128,170 | (1,469,265) | - |

[1] P Pezzi was appointed on 1 March 2013. Other changes during the year include shares received as consideration for acquisition of Lachlan Partners.

[2] S R Manion resigned on 25 June 2012. Other changes during the year include shares held at the date of resignation.

# Note 24. Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel (continued)

*Shareholdings (continued)*

| 2012 Ordinary shares | Balance at the start of the year | Received on exercise of options | Received on vesting of rights | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Non-executive directors** | | | | | |
| E R Dodd | 100,000 | - | - | - | 100,000 |
| J B Gannon | 33,899,099 | - | - | - | 33,899,099 |
| G E Maloney | 100,000 | - | - | - | 100,000 |
| P J Promnitz | 100,000 | - | - | - | 100,000 |
| N Sparks [1] | - | - | - | - | - |
| **Executive directors** | | | | | |
| A K Fenning | 26,514,909 | - | - | - | 26,514,909 |
| J P Kilkenny | 7,867,841 | - | - | - | 7,867,841 |
| A B McDonald [2] | 2,043,872 | - | 1,670,938 | (3,714,810) | - |
| **Other key management personnel** | | | | | |
| J S Cowan [3] | - | - | - | 181,500 | 181,500 |
| L W Y Fox | 967,500 | - | - | 100,000 | 1,067,500 |
| N R M Bedding | 13,022,662 | - | - | - | 13,022,662 |
| D A Pitcher [4] | - | - | - | - | - |
| S R Manion | - | - | 1,341,095 | - | 1,341,095 |
| J J Nunan [5] | 3,058,076 | - | - | (3,058,076) | - |
| C F Scarcella [6] | 1,814,040 | - | 1,441,875 | (2,455,913) | - |

[1] N Sparks was appointed as a non-executive director on 27 March 2012.
[2] A B McDonald resigned as an executive director on 27 March 2012. Other changes during the year include shares held at the date of resignation.
[3] J S Cowan was appointed on 27 May 2012. Other changes during the year include shares held at the date of appointment.
[4] D A Pitcher was appointed on 27 March 2012.
[5] J J Nunan ceased to be part of key management personnel on 5 October 2011. Other changes during the year include shares held at the date of ceasing to be part of key management personnel.
[6] C F Scarcella resigned on 20 December 2011. Other changes during the year include shares held at the date of resignation.

*Options and performance rights provided as remuneration*

Details of options and performance rights granted as remuneration, together with their terms and conditions, can be found in the remuneration report on pages 28 to 37. The report also shows shares issued on the exercise of such options and on vesting of the rights.

## Note 24. Key management personnel disclosures (continued)

**(b) Equity instrument disclosures relating to key management personnel (continued)**

*Options and performance rights holdings*

The number of options over ordinary shares in the Company and performance rights granted under the Employee Incentive Plan that were held during the financial year by each executive director of SFG Australia Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2013 Performance rights | Balance at the start of the year | Granted as compen-sation | Vested and converted to ordinary shares | Forfeited during the year | Balance at the end of the year | Unvested |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| A K Fenning | 1,000,000 | 1,000,000 | - | - | 2,000,000 | 2,000,000 |
| **Other key management personnel** | | | | | | |
| J S Cowan | - | 600,000 | - | - | 600,000 | 600,000 |
| L W Y Fox | 252,487 | 600,000 | - | - | 852,487 | 852,487 |
| N R M Bedding | 272,653 | 600,000 | - | - | 872,653 | 872,653 |
| S R Manion | 419,465 | - | (128,170) | (291,295) | - | - |
| | 1,944,605 | 2,800,000 | (128,170) | (291,295) | 4,325,140 | 4,325,140 |

| 2012 Performance rights | Balance at the start of the year | Granted as compen-sation | Vested and converted to ordinary shares | Forfeited during the year | Balance at the end of the year | Unvested |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| A K Fenning | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| A B McDonald | 1,670,938 | - | (1,670,938) | - | - | - |
| **Other key management personnel** | | | | | | |
| L W Y Fox | - | 252,487 | - | - | 252,487 | 252,487 |
| N R M Bedding | - | 272,653 | - | - | 272,653 | 272,653 |
| S R Manion | 1,341,095 | 419,465 | (1,341,095) | - | 419,465 | 419,465 |
| C F Scarcella | 1,441,875 | - | (1,441,875) | - | - | - |
| | 4,453,908 | 1,944,605 | (4,453,908) | - | 1,944,605 | 1,944,605 |

There were no outstanding options over ordinary shares in the Company held by executive directors or other key management personnel of the Group at 30 June 2013.

| 2012 Options | Balance at the start of the year | Granted as compen-sation | Options exercised | Forfeited during the year | Other changes | Balance at the end of the year | Vested and exercisable |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| A B McDonald | 1,500,000 | - | - | (300,000) | (1,200,000) | - | - |
| **Other key management personnel** | | | | | | | |
| C F Scarcella | 1,500,000 | - | - | (300,000) | (1,200,000) | - | - |
| | 3,000,000 | - | - | (600,000) | (2,400,000) | - | - |

## Note 24. Key management personnel disclosures (continued)

### (c) Loans to key management personnel

No loans to directors of the Group or to the other key management personnel of the Group were made during the year (2012 – nil), including to their personally related parties.

### (d) Other transactions with key management personnel

There were no other transactions with the directors of the Group or with the other key management personnel of the Group during the year (2012 – nil), including with their personally related parties.

## Note 25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

| | 2013 $ | 2012 $ |
|---|---|---|
| **PwC Australia** | | |
| *Audit and other assurance services* | | |
| Audit and review of financial statements | **417,060** | 509,609 |
| Audit and review of regulatory returns | **53,531** | 51,472 |
| | **470,591** | 561,081 |
| *Taxation services* | | |
| Tax compliance services | **85,008** | 104,025 |
| *Other services* | | |
| Due diligence services | **251,000** | 185,000 |
| Governance, risk management and business continuity planning | **230,655** | 174,403 |
| | **481,655** | 359,403 |
| Total remuneration of PwC Australia | **1,037,254** | 1,024,509 |

It is the Group's policy to employ PwC Australia on assignments additional to their statutory audit duties where PwC Australia's expertise and experience with the Group are important. These assignments are principally for tax advice or where PwC Australia is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

## Note 26. Contingencies

The Group had contingent liabilities at 30 June 2013 in respect of:

*Financial guarantees*

The Group has given financial guarantees, secured by a fixed and floating charge over all the assets and undertakings of the Group, in respect of the following:

- Australian Securities and Investment Commission for the purpose of maintaining AFS license requirements amounting to $80,000 (2012: $60,000); and
- rental contract guarantees totalling $4,472,525 (2012: $5,042,453).

These guarantees only give rise to a liability where the entity concerned fails to perform its contractual obligation. No liability was recognised by the Group in relation to these guarantees.

*Put Options*

Western Pacific Financial Group Pty Ltd ('Western Pacific'), a subsidiary of the Group, entered into a put option agreement with the following Western Pacific practices on 1 May 2008:

- Financial Wealth Solutions Pty Limited – practice located in Kawana, QLD;
- Knightswood Nominees Pty Limited – practice located in North Sydney, NSW; and
- Pindi Holdings Pty Limited – practice located in North Sydney, NSW.

Under the terms of the agreements, each of the practices has an option to sell their business to Western Pacific during the period 1 May 2013 to 30 April 2018 should certain financial and non-financial criteria be met.

On 15 July 2013 Pindi Holdings Pty Limited exercised its option. The acquisition was completed effective 1 August 2013 and the Group paid $1,254,127.

Western Pacific currently estimates the value of the remaining two practices in aggregate to be $1,023,551 (2012: $2,011,201 including Pindi Holdings Pty Limited).

The Group entered into a put option agreement with the following entities, associated with two principals and shareholders of Duncan Dovico Holdings Pty Limited ('DDH') on 21 October 2008:

- Dalemarc Corporations Pty Limited; and
- The Good Living Company Pty Limited.

Under the terms of the agreements, each of the above companies has an option to sell their shareholdings in DDH to the Group during the period 1 July 2011 to 1 July 2021 should certain financial and non-financial criteria be met. The Group currently estimates the value of the DDH shares subject to the put options to be in the order of $1,476,033 (2012: $2,513,281) in aggregate.

## Note 27. Commitments

### (a) Capital and contractual commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| *Property, plant and equipment* | | |
| Payable: | | |
| Within one year | **264** | 485 |
| Later than one year, but not later than five years | **198** | 162 |
| | **462** | 647 |

### (b) Lease commitments: Group as lessee

*Non-cancellable operating leases*

The Group leases offices under non-cancellable operating leases expiring within one to eleven years. The leases have varying terms, escalation clauses, incentives and renewal rights. On renewal, the terms are renegotiated.

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | **5,824** | 4,905 |
| Later than one year, but not later than five years | **14,486** | 10,922 |
| Later than five years | **4,281** | 4,075 |
| | **24,591** | 19,902 |

*Finance leases*

The Group leases leasehold fit-out works with a carrying amount of $1,456,032 (2012: $1,210,401) under a finance lease expiring within five years.

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Commitments in relation to finance leases are payable as follows: | | |
| Within one year | **632** | 472 |
| Later than one year, but not later than five years | **1,449** | 1,397 |
| Later than five years | **-** | - |
| Minimum lease payments | **2,081** | 1,869 |
| Future finance charges | **(247)** | (280) |
| Recognised as a liability | **1,834** | 1,589 |

## Note 28. Related party transactions

### (a) Parent Entity

The Parent Entity within the Group is SFG Australia Limited. Refer to note 37 for information relating to the Parent Entity.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 30.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

### (d) Transactions with other related parties

The following transactions occurred with related parties:

| | Note | 2013 $ | 2012 $ |
|---|---|---|---|
| *Superannuation contributions* | | | |
| Contributions to superannuation funds on behalf of employees | | **3,853,135** | 3,432,046 |
| *Share-based payments* | | | |
| Issue of shares and options: | | | |
| Options issued under Employee Incentive Plan | 36 | **-** | 5,891 |
| Performance rights issued under Employee Incentive Plan | 36 | **340,363** | 102,177 |
| *Other transactions* | | | |
| Issue of new ordinary shares | | **2,999,500** | 1,050,000 |
| Remuneration paid to non-executive directors | | **540,000** | 495,214 |

### (e) Loans to related parties

The following loans to related parties are held with related parties of the Group:

| | 2013 $ | 2012 $ |
|---|---|---|
| *Loans to other related parties* | | |
| Opening balance | **961,750** | 1,305,155 |
| Repayments | **-** | (343,405) |
| Closing balance | **961,750** | 961,750 |
| *Loans to associates* | | |
| Opening balance | **-** | 755,142 |
| Repayments | **-** | (755,142) |
| Closing balance | **-** | - |

## Note 28. Related party transactions (continued)

### (f) Terms and conditions

A loan between the Group and its other related parties as disclosed above was established with an employee of the Group on 7 February 2011 for the purpose of acquiring shares in the Company. The loan is due for repayment on 7 February 2018 or any later date as the parties agree in writing. Interest is applied to the outstanding portion of the loan at the Australian Tax Office's FBT statutory/benchmark interest rate which is currently 6.45% (2012: 7.40%) per annum payable on a monthly basis. The shares acquired using the principal sum of the loan are held in escrow under a Voluntary Escrow Deed.

## Note 29. Business combinations

### (a) Summary of acquisitions

The following businesses were acquired during the financial year:

- the business of Parkside Insurance Brokers (referred to as 'Parkside'), a small general insurance broker based in Perth, effective 1 October 2012;
- the business referred to as 'W Corp', a Melbourne based high net worth financial advice business, effective 31 December 2012;
- the business of Investor Taxation Services (referred to as 'ITS'), a small accounting practice based in Brisbane, effective 1 February 2013; and
- 100% of the issued capital of Lachlan Partners Pty Limited and its controlled entities (collectively 'Lachlan Partners'), effective 1 March 2013. Lachlan Partners is an integrated accounting, tax, business advisory, SMSF and financial advice group with offices in Melbourne, Sydney and Brisbane.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | Parkside $'000 | W Corp $'000 | ITS $'000 | Lachlan Partners $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cash consideration | 959 | 2,975 | 244 | 19,882 | 24,060 |
| Equity consideration | - | - | - | 3,000 | 3,000 |
| Deferred and contingent consideration | 487 | 602 | 61 | 8,014 | 9,164 |
| Total purchase consideration | **1,446** | **3,577** | **305** | **30,895** | **36,224** |

The deferred and contingent consideration amounts payable in relation to the above acquisitions can rise and fall depending on performance hurdles achieved during the deferral period. Deferred considerations, however, will be nil or greater as no clawback of purchase price already paid is possible.

## Note 29. Business combinations (continued)

### (a) Summary of acquisitions (continued)

The fair value of the assets and liabilities recognised as a result of the acquisitions are as follows:

| | Parkside $'000 | W Corp $'000 | ITS $'000 | Lachlan Partners $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cash | - | - | - | (131) | (131) |
| Trade and other receivables | - | - | - | 2,153 | 2,153 |
| Work in progress | - | - | - | 424 | 424 |
| Deferred tax assets | - | 13 | 9 | 2,078 | 2,100 |
| Property, plant and equipment | - | - | - | 198 | 198 |
| Intangible assets | 262 | 1,191 | 191 | 8,944 | 10,588 |
| Trade and other payables | - | - | - | (1,570) | (1,570) |
| Provisions | - | (45) | (31) | (1,314) | (1,390) |
| Deferred tax liabilities | (79) | (357) | (57) | (3,051) | (3,544) |
| Net identifiable assets acquired | 183 | 802 | 112 | 7,731 | 8,828 |
| Goodwill | 1,263 | 2,775 | 193 | 23,164 | 27,395 |
| Net assets acquired | **1,446** | **3,577** | **305** | **30,895** | **36,224** |

The goodwill is attributable to the profitability of the acquired businesses and synergies expected to arise after the Group's acquisition of the new businesses. It will not be deductible for tax purposes.

*Acquired receivables*

Trade and other receivables in the table above are shown at fair value. The gross contractual amounts receivable are:

| | Parkside $'000 | W Corp $'000 | ITS $'000 | Lachlan Partners $'000 | Total $'000 |
|---|---|---|---|---|---|
| Trade and other receivables | - | - | - | 2,697 | **2,697** |

## Note 29. Business combinations (continued)

### (a) Summary of acquisitions (continued)

*Revenue and profit contribution*

The acquired businesses contributed:

| | Parkside $'000 | W Corp $'000 | ITS $'000 | Lachlan Partners $'000 | Total $'000 |
|---|---|---|---|---|---|
| Revenue contribution from date of acquisition to end of financial year | 498 | 484 | 114 | 5,479 | **6,575** |
| Contribution to profit before income tax from date of acquisition to end of financial year | 122 | 222 | 14 | 268 | **626** |
| Depreciation and amortisation | 37 | 74 | 16 | 561 | **688** |
| Finance costs (notional interest) | 22 | 18 | 3 | 160 | **203** |
| One-off, non-operational expenses | - | - | - | 261 | **261** |
| Contribution to Operating EBITDA | 181 | 314 | 33 | 1,250 | **1,778** |

If all the acquisitions had occurred on 1 July 2012, revenue from continuing operations and net profit before income tax for the year ended 30 June 2013 would have been $167,577,000 and $37,334,000 respectively.

*Information not disclosed as not yet available*

At the time the consolidated financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of Lachlan Partners. In particular, the fair values of the assets and liabilities disclosed above have been estimated based on information available at the date of this report as the valuation has not yet been finalised. A purchase price allocation ('PPA') will be conducted during the year ending 30 June 2014.

### (b) Purchase consideration – cash outflow

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Outflow of cash to acquire subsidiaries, net of cash acquired** | | |
| Cash consideration | **24,060** | 6,854 |
| Less: balances acquired | | |
| Cash | **(21)** | (161) |
| Bank overdraft | **152** | - |
| Consideration payable (included in trade and other payables) | **(159)** | - |
| Outflow of cash – investing activities | **24,032** | 6,693 |

*Acquisition-related costs*

Acquisition-related costs of $2,970,205 (2012: $1,882,357) are included in professional fees in the consolidated statement of comprehensive income and in cash flows from operating activities in the consolidated statement of cash flows.

# Note 29. Business combinations (continued)

**(c) Completion of acquisition accounting**

During the period, the Group finalised its accounting for the acquisitions of Jeena (acquired as Phaz Pty Limited and its controlled entities), Life Financial Services (Ballarat) and Spencers Accountants Pty Limited. Changes in assets and liabilities are due to fair value adjustments which have arisen on finalisation of the PPA process.

| | Total per prior year annual report $'000 | Total per final PPA $'000 | Change $'000 |
|---|---|---|---|
| Cash | 161 | 161 | - |
| Trade and other receivables | 405 | 405 | - |
| Current tax assets | 20 | 20 | - |
| Investments | 7 | - | (7) |
| Property, plant and equipment | 9 | 9 | - |
| Intangible assets | 2,551 | 3,343 | 792 |
| Trade and other payables | (91) | (91) | - |
| Provisions | (116) | (116) | - |
| Deferred tax liabilities | (776) | (1,014) | (238) |
| Net identifiable assets acquired | 2,170 | 2,717 | 547 |
| Goodwill | 8,418 | 7,871 | (547) |
| Net assets acquired | 10,588 | 10,588 | - |

As a result of the finalisation of the PPA process the following items presented in the consolidated statement of comprehensive income for the year ended 30 June 2012 have been restated:

| | Total per prior year annual report $'000 | Total per final PPA $'000 | Change $'000 |
|---|---|---|---|
| Amortisation | (4,316) | (4,336) | (20) |
| Profit before income tax expense | 29,602 | 29,582 | (20) |
| Income tax expense | (18,270) | (18,262) | 8 |
| Profit for the year | 11,332 | 11,320 | (12) |

## Note 30. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of entity | Country of incorporation | Class of holding | Equity/unit holding (%) 2013 | 2012 |
|---|---|---|---|---|
| Actuate Alliance Services Pty Limited (formerly Outlook Financial Solutions Pty Limited) | Australia | Ordinary shares | 100 | 100 |
| Financial Acuity Limited | Australia | Ordinary shares | 100 | 100 |
| finHQ Pty Limited | Australia | Ordinary shares | 100 | 100 |
| GGS Unit Trust | Australia | Units | 100 | 100 |
| Lachlan Partners Pty Limited | Australia | Ordinary shares | 100 | - |
| Lachlan Partners Business Advisory Services Pty Limited | Australia | Ordinary shares | 100 | - |
| Lachlan Partners Corporate Services Pty Limited | Australia | Ordinary shares | 100 | - |
| Lachlan Wealth Management Limited | Australia | Ordinary shares | 100 | - |
| Money Management Services Limited | Australia | Ordinary shares | 100 | 100 |
| Mosaic Portfolio Advisers Limited | Australia | Ordinary shares | 100 | 100 |
| SFG Administration Pty Limited | Australia | Ordinary shares | 100 | 100 |
| Shadforth Financial Group Limited | Australia | Ordinary shares | 100 | 100 |
| Shadforth Financial Group Holdings Limited | Australia | Ordinary shares | 100 | 100 |
| Shadforth Insurance Brokers Pty Limited | Australia | Ordinary shares | 100 | 100 |
| Shadforths Limited | Australia | Ordinary shares | 100 | 100 |
| Walmsley Halligan & Co Pty Limited | Australia | Ordinary shares | 100 | 100 |
| Western Pacific Financial Group Pty Limited | Australia | Ordinary shares | 100 | 100 |

## Note 31. Investments in associates

### (a) Movements in carrying amounts

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Carrying amount at the beginning of the financial year | **5,200** | 5,630 |
| Share of profits after income tax | **296** | 275 |
| Dividends received/receivable | **(315)** | (224) |
| Amortisation | **(165)** | (165) |
| Partial disposal of ownership interest | **-** | (316) |
| Impairment | **(923)** | - |
| Carrying amount at the end of the financial year | **4,093** | 5,200 |

## Note 31. Investments in associates (continued)

### (b) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

| | Ownership Interest % | Group's share of: Assets $'000 | Liabilities $'000 | Revenues $'000 | Profit $'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Duncan Dovico Holdings Pty Limited | 30 | 5,512 | 1,788 | 3,325 | 151 |
| QT Financial Planning Pty Limited | 25 | 319 | 129 | 767 | 145 |
| | | **5,831** | **1,917** | **4,092** | **296** |
| **2012** | | | | | |
| Duncan Dovico Holdings Pty Limited | 30 | 5,480 | 1,779 | 3,138 | 172 |
| QT Financial Planning Pty Limited | 25 | 331 | 112 | 730 | 103 |
| | | 5,811 | 1,891 | 3,868 | 275 |

All of the above associates are incorporated in Australia.

The Group earns additional revenue from QT Financial Planning Pty Limited for services that it provides to this entity pursuant to a Services Agreement.

## Note 32. Events occurring after the reporting period

Other than the below, no matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operation of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Dividends

Subsequent to the end of the financial year, the directors have determined to pay a final ordinary dividend of 1.40 cents per share, fully franked. The record date for determining the entitlement to this dividend is 26 September 2013.

### Acquisition

On 15 July 2013 Pindi Holdings Pty Limited, a Western Pacific advice practice based in North Sydney, exercised its option to sell its business to the Group. The acquisition was completed effective 1 August 2013 and the Group paid cash consideration of $1,254,127. The Group has not yet finalised its accounting for the acquisition.

## Note 33. Reconciliation of profit after income tax to net cash inflow from operating activities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit for the year | **24,147** | 11,320 |
| Non-cash items included in profit or loss: | | |
| Depreciation and amortisation | **6,466** | 5,605 |
| Finance costs | **812** | 708 |
| Fair value gains on financial assets at fair value through profit or loss | **(82)** | - |
| Fair value gain from derecognition of deferred consideration payable | **(628)** | - |
| Impairment of investment in associate | **923** | - |
| Net loss on sale of non-current assets | **590** | 905 |
| Share of associate's profit | **(296)** | (275) |
| Share based payments | **340** | 108 |
| Dividends received classified as financing activities | **(51)** | - |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | **(1,246)** | (1,631) |
| Increase in work in progress | **(170)** | (208) |
| Decrease in deferred tax assets | **2,248** | 1,088 |
| Decrease/(increase) in trade and other payables | **2,893** | (1,840) |
| (Increase)/decrease in current tax liabilities | **(4,216)** | 3,037 |
| (Increase)/decrease in provisions | **(595)** | 3,178 |
| (Increase)/decrease in deferred tax liabilities | **(1,696)** | 713 |
| Net cash inflow from operating activities | **29,439** | 22,708 |

## Note 34. Non-cash investing and financing activities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Acquisition of business via an issue of fully paid ordinary shares | **3,000** | 1,050 |

## Note 35. Earnings per share

### (a) Basic earnings per share

| | 2013 Cents | 2012 Cents |
|---|---|---|
| Basic earnings per share attributable to the ordinary equity holders of the Company | **3.30** | 1.55 |

## Note 35. Earnings per share (continued)

### (b) Diluted earnings per share

| | 2013 Cents | 2012 Cents |
|---|---|---|
| Diluted earnings per share attributable to the ordinary equity holders of the Company | **3.29** | 1.55 |

### (c) Reconciliation of earnings used in calculating earnings per share

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share | **24,147** | 11,320 |

### (d) Weighted average number of shares used as the denominator

| | 2013 Number | 2012 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **731,265,972** | 728,395,452 |
| Adjustments for calculation of diluted earnings per share: | | |
| Shares to be issued to satisfy performance rights issued under the SFG Australia Limited Employee Incentive Plan | **3,208,259** | 1,471,671 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **734,474,231** | 729,867,123 |

### (e) Information concerning the classification of securities

*Options*

Options granted to employees are considered to be potential ordinary shares only when they have vested and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 36.

*Performance rights*

Performance rights granted to employees under the SFG Australia Limited Employee Incentive Plan are considered to be contingently issuable potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. Performance rights have been included in the determination of basic earnings per share based on the number of shares that would be issuable if:

- the vesting date was the end of the reporting period; and
- the vesting conditions of those performance rights were tested over the period from grant date to the end of the reporting period.

Details relating to the performance rights are set out in note 36.

## Note 36. Share-based payments

The establishment of the SFG Australia Limited Employee Incentive Plan was approved by the directors on 17 December 2008 and amended at the AGM on 29 November 2011. This Plan replaces the previous SFG Australia Limited Employee Share Plan that was approved by shareholders on 18 April 2002 and the previous SFG Australia Limited Employee Option Plan approved by shareholders on 21 December 2001.

### (a) Options

Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

No options were granted or exercised during the current financial year or the prior financial year.

The following options were issued under the previous SFG Australia Limited Employee Share Plan which was approved by shareholders at a general meeting of shareholders on 18 April 2002.

On 26 October 2005, 3,600,000 options were issued to 20 eligible employees of the Group under a management and staff incentive scheme, who were entitled to be granted options pursuant to the abovementioned plan. All vested options from this issue have expired or been exercised.

On 7 February 2007, 3,000,000 options were issued to A B McDonald and C F Scarcella, who were entitled to be granted options pursuant to the abovementioned plan. The options are divided equally among five tranches, and on the vesting date for each tranche, those options vest if the option holder is employed by the Company, or a subsidiary of it, at that vesting date. The exercise price for each tranche of options is $0.69, $0.79, $0.91, $1.05 and $1.21 respectively. The options within each tranche expire four years after vesting date for the first and second tranches, three years after vesting date for the third and fourth tranches, and two years after vesting date for the fifth tranche. The balance of unexercised and unexpired options from this issue at 30 June 2013 is 1,200,000 with 1,200,000 fully vested.

On 27 March 2007, 1,000,000 options were issued to S P W Quirk and N N Collett, who were entitled to be granted options pursuant to the abovementioned Plan. The options are divided equally among five tranches, and on the vesting date for each tranche, those options vest if the option holder is employed by the Company, or a subsidiary of it, at that vesting date. The exercise price for each tranche of options is $0.83, $0.93, $1.04, $1.16 and $1.30 respectively. The options within each tranche expire four years after vesting date for the first and second tranches, three years after vesting date for the third and fourth tranches, and two years after vesting date for the fifth tranche. All vested options from this issue have expired or been exercised.

Set out below are summaries of options granted under the Plan:

| Expiry date | Exercise price | Balance at start of year Number | Granted during the year Number | Exercised during the year Number | Forfeited or expired during the year Number | Balance at end of year Number | Vested and exercisable at end of year Number |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| *Grant date: 27 March 2007* | | | | | | | |
| 31 Dec 2012 | $0.93 | 200,000 | - | - | (200,000) | - | - |
| 31 Dec 2012 | $1.04 | 200,000 | - | - | (200,000) | - | - |
| *Grant date: 7 February 2007* | | | | | | | |
| 31 Dec 2012 | $0.79 | 600,000 | - | - | (600,000) | - | - |
| 31 Dec 2012 | $0.91 | 600,000 | - | - | (600,000) | - | - |
| 31 Dec 2013 | $1.05 | 600,000 | - | - | - | 600,000 | 600,000 |
| 31 Dec 2013 | $1.21 | 600,000 | - | - | - | 600,000 | 600,000 |
| | | 2,800,000 | - | - | (1,600,000) | 1,200,000 | 1,200,000 |
| Weighted average exercise price | | $0.99 | - | - | $0.88 | $1.13 | $1.13 |

## Note 36. Share-based payments (continued)

### (a) Options (continued)

| Expiry date | Exercise price | Balance at start of year Number | Granted during the year Number | Exercised during the year Number | Forfeited or expired during the year Number | Balance at end of year Number | Vested and exercisable at end of year Number |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| *Grant date: 27 March 2007* | | | | | | | |
| 31 Dec 2011 | $0.83 | 200,000 | - | - | (200,000) | - | - |
| 31 Dec 2012 | $0.93 | 200,000 | - | - | - | 200,000 | 200,000 |
| 31 Dec 2012 | $1.04 | 200,000 | - | - | - | 200,000 | 200,000 |
| *Grant date: 7 February 2007* | | | | | | | |
| 31 Dec 2011 | $0.69 | 600,000 | - | - | (600,000) | - | - |
| 31 Dec 2012 | $0.79 | 600,000 | - | - | - | 600,000 | 600,000 |
| 31 Dec 2012 | $0.91 | 600,000 | - | - | - | 600,000 | 600,000 |
| 31 Dec 2013 | $1.05 | 600,000 | - | - | - | 600,000 | 600,000 |
| 31 Dec 2013 | $1.21 | 600,000 | - | - | - | 600,000 | 600,000 |
| *Grant date: 26 October 2005* | | | | | | | |
| 14 Apr 2012 | $0.40 | 1,445,000 | - | - | (1,445,000) | - | - |
| | | 5,045,000 | - | - | (2,245,000) | 2,800,000 | 2,800,000 |
| Weighted average exercise price | | $0.72 | - | - | $0.52 | $0.99 | $0.99 |

### (b) Performance rights

A 'performance right' is a right to acquire one ordinary share for nil exercise price upon the satisfaction of certain vesting conditions. Performance rights granted under the Plan carry no dividend or voting rights. As soon as practicable after vesting, the Company will issue to each participant one ordinary share in the Company for each performance right that has vested, subject to any withholding tax.

The following performance rights were issued under the SFG Australia Limited Employee Incentive Plan:

- on 29 March 2013, a total of 2,900,000 performance rights were issued to six eligible employees; and
- on 30 June 2012, a total of 2,919,348 performance rights were issued to eight eligible employees, with an effective allocation date of 1 January 2012.

Details of performance rights provided as remuneration to each member of the Group's key management personnel are set out in note 24.

Unless otherwise determined by the Board, the vesting of performance rights is conditional upon the continuing employment with the Group at vesting date and the following two conditions being satisfied:

- 50% of the allocated performance rights will be subject to the Total Shareholder Return ('TSR') Vesting Condition; and
- 50% of the allocated performance rights will be subject to the Profit Per Share ('PPS') Vesting Condition.

## Note 36. Share-based payments (continued)

### (b) Performance rights (continued)

| Expected vesting date | Fair value at grant date | Vesting condition | Balance at start of year Number | Granted during the year Number | Vested during the year Number | Forfeited during the year Number | Balance at end of year Number |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| *Grant date: 29 March 2013* | | | | | | | |
| 30 Jun 2015 | $0.56 | PPS | - | 1,450,000 | - | - | 1,450,000 |
| 30 Jun 2015 | $0.50 | TSR | - | 1,450,000 | - | - | 1,450,000 |
| *Grant date: 30 June 2012 (effective 1 January 2012)* | | | | | | | |
| 31 Dec 2014 | $0.25 | PPS | 1,459,674 | - | (197,828) | (387,418) | 874,428 |
| 31 Dec 2014 | $0.17 | TSR | 1,459,674 | - | (197,828) | (387,419) | 874,427 |
| | | | 2,919,348 | 2,900,000 | (395,656) | (774,837) | 4,648,855 |

| Expected vesting date | Fair value at grant date | Vesting condition | Balance at start of year Number | Granted during the year Number | Vested during the year Number | Forfeited during the year Number | Balance at end of year Number |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| *Grant date: 30 June 2012 (effective 1 January 2012)* | | | | | | | |
| 31 Dec 2014 | $0.25 | PPS | - | 1,459,674 | - | - | 1,459,674 |
| 31 Dec 2014 | $0.17 | TSR | - | 1,459,674 | - | - | 1,459,674 |
| | | | - | 2,919,348 | - | - | 2,919,348 |

*Fair value of performance rights granted*

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2013 was $0.56 per PPS performance right (2012: $0.25) and $0.50 per TSR performance right (2012: $0.17). The fair value at grant date has been independently determined using the following models and inputs:

| | 2013 Performance Rights | | 2012 Performance Rights | |
|---|---|---|---|---|
| | PPS Vesting Condition | TSR Vesting Condition | PPS Vesting Condition | TSR Vesting Condition |
| Valuation methodology | Monte-Carlo | Binomial | Monte-Carlo | Binomial |
| Model inputs: | | | | |
| Start date for performance assessment period | 1 Jul 2012 | 1 Jul 2012 | 1 Jan 2012 | 1 Jan 2012 |
| End date for performance assessment period | 30 Jun 2015 | 30 Jun 2015 | 31 Dec 2014 | 31 Dec 2014 |
| Expected vesting date | 1 Jul 2015 | 1 Jul 2015 | 1 Jan 2015 | 1 Jan 2015 |
| Share price at grant date | $0.61 | $0.61 | $0.32 | $0.32 |
| Expected life | 2.3 years | 2.4 years | 3 years | 3 years |
| Volatility | 30% | 30% | 35% | 35% |
| Risk free interest rate | 2.81% | 2.82% | 3.12% | 3.12% |
| Dividend yield | 4% | 4% | 8.6% | 8.6% |

## Note 36. Share-based payments (continued)

### (b) Performance rights (continued)

*TSR Vesting Conditions*

The 'external' vesting condition set by the Board for vesting of 50% of the performance rights is the TSR of the Company. The Company's TSR was chosen as it is widely recognised as one of the best indicators of shareholder value creation. TSR represents the change in market value of the Company over time, including its share price and dividends and any other distributions made to the Company's shareholders.

The Board will compare the percentage increase (or decrease) in the TSR of each of the companies that make up the 'S&P/ASX 300 Financial' accumulation index (excluding A-REITs), measured over the three year period ending immediately prior to each vesting date with the relative increase (or decrease) in the TSR of a shareholding in SFG Australia Limited over the same period ('the Relative TSR'). The S&P/ASX 300 Financial index (excluding A-REITs) was chosen as it represents the industry in which the Company participates and is therefore a relevant group with which the Company competes for its shareholders' capital.

Performance rights that are subject to the TSR Vesting Condition will only vest subject to and in accordance with the following parameters:

- if the TSR is negative, none of those performance rights will vest;
- if the Relative TSR is below 50%, none of those performance rights will vest;
- if the Relative TSR is equal to 50%, 50% of those performance rights will vest;
- if the Relative TSR is between 50% and 75%, vesting will occur on a straight scale between 50% and 100% of those performance rights; and
- if the Relative TSR is more than 75%, 100% of those performance rights will vest.

*PPS Vesting Conditions*

The 'internal' vesting condition set by the Board for vesting of the remaining 50% of the performance rights is the PPS of the Company for a specific period. PPS is calculated using after-tax profits for a relevant period derived from the Company's continuing operations including the notional financial impact of any deferred consideration for completed acquisitions and excluding any impairment charges, acquisition costs or amortisation of intangible assets unless such charges can be shown to be a genuine assessment of the reduction in the value of the business which has not already been reflected in the underlying PPS calculation. The Company will measure the increase (or decrease) in PPS over the three year period ending immediately prior to each vesting date ('the Relative PPS') with a Target and Threshold PPS, determined by the Board at or prior to each yearly allocation of performance rights.

Performance rights that are subject to the PPS Vesting Condition will only vest if the Relative PPS is a percentage increase, and then only subject to and in accordance with the following parameters:

- if the Relative PPS is less than the Threshold PPS, none of those performance rights will vest;
- if the Relative PPS is equal to the Threshold PPS, 25% of those performance rights will vest;
- if the Relative PPS is between the Threshold PPS and the Target PPS, vesting will occur on a straight line between 25% and 100% of those performance rights; and
- if the Relative PPS above the Target PPS, 100% of those performance rights will vest.

*Accelerated vesting and termination benefits*

Performance rights will vest on an accelerated basis in certain limited circumstances, including on a takeover, death, redundancy or retirement. However, if a participant's employment with the Company terminates for cause or as a result of resignation, any outstanding performance rights will immediately lapse.

Where the performance rights vest on an accelerated basis upon the retirement or redundancy of an executive director, a *pro rata* proportion of their performance rights will vest. Upon vesting, the Company will issue to the executive director one ordinary share in the Company for each performance right. The accelerated vesting of performance rights in these circumstances may be considered a termination benefit.

## Note 36. Share-based payments (continued)

### (c) Exempt share awards

Exempt share awards are designed to provide all eligible employees of the Company and its related bodies corporate with the opportunity to acquire shares in the Company and share in the Company's future performance. All Australian resident full-time and permanent part-time employees (excluding directors, the company secretary, and members of the EMT) who are employed by the Company or any of its related bodies corporate on or after 18 December 2008 are eligible to participate in the Plan. Employees may elect not to participate in the Plan.

Under the rules of the Plan, eligible employees may be offered fully paid ordinary shares in the Company annually for no cash consideration. The market value of shares issued under the Plan, measured as the prevailing market price on the date of issue of the shares, is recognised in the balance sheet as an issue of ordinary shares by the Company and in the income statement as an employee benefit cost in the period the shares are granted.

Offers under the Plan are at the discretion of the Company. Shares issued under the Plan may not be sold until the earlier of three years after issue or cessation of employment by the Group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The number of shares issued to participants in the Plan is the offer amount divided by the prevailing market price on the date of issue of the shares.

For the years ended 30 June 2013 and 30 June 2012, there were no grants of ordinary shares to employees.

### (d) Total expenses arising from share-based payment transactions

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Options issued under SFG Australia Limited Employee Incentive Plan | **-** | 6 |
| Performance rights issued under SFG Australia Limited Employee Incentive Plan | **340** | 102 |
| | **340** | 108 |

## Note 37. Parent Entity financial information

### (a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **11,766** | 27,671 |
| Total assets | **330,951** | 317,072 |
| Current liabilities | **19,173** | 4,020 |
| Total liabilities | **22,477** | 11,833 |
| *Shareholders' equity* | | |
| Contributed equity | **303,172** | 299,243 |
| Reserves | **3,274** | 3,274 |
| Retained earnings | **2,028** | 2,721 |
| | **308,474** | 305,238 |
| Profit for the year | **15,417** | 1,907 |
| Total comprehensive income | **15,417** | 1,907 |

### (b) Contingent liabilities of the Parent Entity

The Parent Entity had contingent liabilities as at 30 June 2013 in respect of:

*Financial guarantees*

The Parent Entity has given financial guarantees, secured by a fixed and floating charge over all the assets and undertakings of the Group, in respect of the following:

- Australian Securities and Investment Commission for the purpose of maintaining AFS license requirements amounting to $60,000 (2012: $40,000); and
- rental contract guarantees totalling $314,421 (2012: $412,583).

*Eligible undertaking*

The Company has given an unconditional and irrevocable eligible undertaking to its wholly-owned subsidiary, Mosaic Portfolio Advisers Limited ('Mosaic'), to pay to Mosaic an amount not exceeding $10,000,000 on receipt of a written demand by Mosaic. At the date of this report, no payment pursuant to the eligible undertaking has been requested or provided.

No liability was recognised by the Parent Entity in relation to the guarantees or eligible undertaking.

# DIRECTORS' DECLARATION

**30 JUNE 2013**

In the directors' opinion:

(a) the financial statements and notes set out on pages 49 to 115 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director, Group Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

**P J Promnitz**
Chairman
Sydney
26 September 2013

## Independent auditor's report to the members of SFG Australia Limited

### *Report on the financial report*

We have audited the accompanying financial report of SFG Australia Limited (the company), which comprises the consolidated balance sheet as at 30 June 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the SFG Australia Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### *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 is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the 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. These Auditing 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 and fair presentation of the financial report 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of SFG Australia 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 2013 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

***Report on the Remuneration Report***

We have audited the remuneration report included in pages 28 to 37 of the directors' report for the year ended 30 June 2013. 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.

*Auditor's opinion*

In our opinion, the remuneration report of SFG Australia Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

SK Fergusson
Partner

Sydney
26 September 2013

# SHAREHOLDER INFORMATION

**30 JUNE 2013**

The shareholder information set out below was applicable as at 23 August 2013.

### (a) Distribution of equity securities

Analysis of numbers of security holders by size of holding:

| | Class of equity security Ordinary shares | |
|---|---|---|
| | Shares | Options |
| 1 – 1,000 | 191 | - |
| 1,001 – 5,000 | 353 | - |
| 5,001 – 10,000 | 107 | - |
| 10,001 – 100,000 | 353 | - |
| 100,001 and over | 270 | 2 |
| | 1,274 | 2 |

There were 82 holders of less than a marketable parcel of 705 ordinary shares.

### (b) Equity security holders

*Twenty largest quoted equity security holders*

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

| | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares |
| National Nominees Limited | 81,416,630 | 11.08% |
| Sam Gannon Pty Ltd <The J B Gannon Family A/C> | 33,899,099 | 4.62% |
| HSBC Custody Nominees (Australia) Limited | 32,232,977 | 4.39% |
| Washington H Soul Pattinson and Company Ltd | 31,995,934 | 4.36% |
| J P Morgan Nominees Australia Limited | 29,733,293 | 4.05% |
| Anthony Kevin Fenning | 26,514,909 | 3.61% |
| WPQ Holdings Pty Ltd | 18,046,867 | 2.46% |
| Citicorp Nominees Pty Ltd | 17,345,158 | 2.36% |
| Grace Genevieve Bailey | 16,561,635 | 2.25% |
| Serjeant Nominees Pty Ltd <The Craig Serjeant Fam A/C> | 15,445,740 | 2.10% |
| Cabletime Pty Ltd <Ingodwe A/C> | 15,200,000 | 2.07% |
| RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C> | 15,095,419 | 2.06% |
| Bensam Investments Pty Ltd <Robert Johnston Fam A/C> | 11,100,000 | 1.51% |
| Webmos Holdings Pty Ltd <Webmos Holdings Unit A/C> | 10,291,891 | 1.40% |
| Kannemer Pty Ltd <Arnheim Fam NO.2 A/C> | 9,760,077 | 1.33% |
| BNP Paribas Nominees Pty Ltd ACF Pengana <DRP A/C> | 9,173,320 | 1.25% |
| Timothy Bruce Rossell | 9,000,000 | 1.23% |
| Kevin Christopher Bailey | 8,790,331 | 1.20% |
| FAWG Holdings Pty Ltd <Wells Family A/c> | 8,500,054 | 1.16% |
| Athena Tasmania Pty Ltd <Financial & Invest Serv A/c> | 8,280,013 | 1.13% |
| Total ordinary shares quoted on ASX held by the top 20 holders | 408,383,347 | 55.60% |

### (b) Equity security holders (continued)

*Unquoted equity securities*

| | Number of holders | Number on issue |
|---|---|---|
| Options issued under the SFG Australia Limited Employee Share Plan to take up ordinary shares, comprising: | | |
| Group 8 | 2 | 1,200,000 |
| Performance rights under the SFG Australia Limited Employee Share Plan | 6 | 4,509,033 |

No person, other than employees, holds 20% or more of these securities.

### (c) Substantial holders

Substantial holders in the Company are set out below:

| | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares |
| Kevin Christopher Bailey, Grace Genevieve Bailey and associated holdings | 49,762,469 | 6.77% |

### (d) Voting rights

The voting rights attaching to each class of equity securities are set out below:

*Ordinary shares*

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

*Options*

No voting rights.

*Performance rights*

No voting rights.

### (e) Securities subject to voluntary escrow

| Class | Escrow release date | Number of shares |
|---|---|---|
| Ordinary shares | 22 February 2014 | 2,463,060 |
| Ordinary shares | 22 February 2015 | 2,463,049 |
| Ordinary shares | 7 February 2018 | 1,131,470 |
| | | 6,057,579 |

SFG Australia Limited
www.sfgaustralia.com.au