Scottish Pacific Group Limited

ABN 45 164 013 110

Interim Report - 31 December 2016

Scottish Pacific Group Limited
Directors' report
31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Scottish Pacific Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

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

Principal activities

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

Dividends

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

	Consolidated	
	Half-year ended 31 Dec 2016	Half-year ended 31 Dec 2015
	$'000	$'000
Final dividend for the year ended 30 June 2016 of 31.6 cents per ordinary share	36,328	-

A dividend of $0.316 per share franked to 100% amounting to $36.3m was declared and paid to holders of ordinary shares in the Company as at 13 July 2016.

Review of operations

Operating and Financial Review

The profit for the Group after providing for income tax amounted to $8,499,000 (31 December 2015: $3,556,000).

The Board presents its operating and financial review for the six months to 31 December 2016 to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for the future. This review complements the financial report.

Principal Activities and Review of Operations

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

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

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

The Group also provides trade finance facilities to clients. This entails the financing of specific transactions where either the supplier or the end customer is resident outside of Australia, NZ or UK. The Group's trade finance business is still a young business and represents less than 5% of the Group's receivables book. However, it has an exciting growth profile.

FY2016 was an unusual year in that it presented an opportunity for the Group to expand its operations by acquiring the business of three competitors in the Australian debtor finance market; Bibby Financial Services Australia (Bibby), GE Invoice Finance (GE) and Suncorp-Metway (Suncorp). One of those opportunities incorporated a small number of debtor finance clients in the NZ market.

Integration of recent Acquisitions
The first six months of FY2017 saw continued focus by the Group's management team on integrating the staff, clients and systems of the three acquisitions which has now been successfully concluded and has delivered the expected synergies. The Group now has approximately 290 staff members and 1,785 clients. As expected, the Group experienced a higher than normal level of staff turnover immediately following the Bibby acquisition in January 2016.

Our staff turnover rate initially jumped higher – to almost 30% on an annualised basis but in the three months to 31 December 2016 had fallen back to the mid-teens still somewhat above historical levels. We expect to see further improvement in staff turnover rates over the remaining period of FY2017.

Scottish Pacific is a service business and the key to delivering exceptional service is an engaged and motivated workforce. The Group conducts regular staff engagement surveys. The most recent survey was completed in December 2016 and it showed that staff engagement had improved from the previous survey that was conducted in October 2015. This is a key measure for determining the Group's continued business success. The management team intends to continue to focus on this aspect of the business and our staff can expect to see further initiatives in this area for the remainder of FY2017 and beyond.

Historically, Scottish Pacific has targeted a client attrition rate of 20% p.a. We experienced higher than targeted levels of attrition amongst clients in the acquired portfolio in the first six months of FY2017 during the integration process, the net result of which is that overall Group client attrition has exceeded our expectations.

Considerable preparatory work has been done on establishing a single core operating / receivables system for the Group. This will see all of our clients migrated from the three existing systems to a new system, the vendor of which is the largest global provider to the debtor finance industry. The project is due for completion in March 2018.

New Business
The vast majority of the Group's new clients are referred by third parties (i.e. finance brokers, accountants, business advisors, bankers and past and present clients). During FY2016 the Group broadened its referral partner network by entering non-exclusive referral partner agreements with two major Australian banks. A concerted effort to lift the proportion and absolute level of new business generated by online origination and other direct contact with prospective new clients commenced in FY2015 and continues to be very successful – direct business is now contributing more than 20% of new business on a sustained basis.

Bad Debt Protection is a product acquired via the Bibby acquisition. Its introduction to the full portfolio of clients required some system changes and since its introduction has been performing strongly.

Another Bibby product, Progress Claim Finance ("PCF"), was wound back immediately after the acquisition was completed to ensure that its credit profile was well understood and its risks properly managed. As the Company increased its confidence in the product, PCF has returned to growth and will be a good contributor in the future.

The UK trade finance business commenced in May 2015 and we have recently strengthened the sales effort by recruiting additional sales staff.

The period to 31 October, 2016 saw the Group achieve lower than expected loan book growth and invoice volumes. This was due to a number of factors, including lower levels of client borrowings (particularly amongst some larger clients) resulting from a weaker macro environment (as evidenced by negative GDP growth for the Australian economy in the September 2016 quarter). The impact of this unusual economic phase was compounded by increased levels of client attrition through some of the acquired clients, which was in part due to the application of Scottish Pacific credit policies on the acquired portfolios. As a result, Net Revenue performance was behind plan for the first four months of the year. Net Profit was also behind plan for the same period. Importantly, Net Interest Margin and Average Management Fee were both in line with plan and our trading performance remains in line with our revised forecasts.

In light of the weaker trading performance in that first four months, a revised forecast for the remainder of FY2017 was produced and disclosed to the market on 14 November 2016. Since then, the trading performance has been in line or ahead of plan for most revenue and expense categories.

The Group's performance on managing Bad and Doubtful Debts has been exceptional for the half year ended 31 December 2016. We achieved a negative expense of $0.2m versus a prior period expense of $0.4m. This has been driven by:-

- a lower than expected exposure of client receivables;
- successful integration of Scottish Pacific credit policy and procedures across all client portfolios; and
- successful implementation of the Risk Factor early warning portfolio monitoring system across all client portfolios

We expect specific bad debts will revert to the higher historical rate in the future.

Funding

FY2016 saw the Group undertake a major restructure and diversification of its funding platform. From 2010 to December, 2015 the Australian client receivables book was funded by a single warehouse facility. A similar warehouse facility established in NZ funded the NZ client receivables book. Both of those facilities continue today essentially unchanged. In FY2016 the Group established two additional warehouse facilities for the Australian client receivables book and one of those warehouse facilities also provides funding to our NZ client receivables book. A mezzanine facility was also established in FY2016 to augment the funding provided by the three Australian warehouse facilities.

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

Warehouse facilities exist where third party funders provide limited recourse financing to special purpose vehicles ("SPVs") that have been established by the Group to fund the purchase of receivables. These facilities are asset backed and are non-recourse to Scottish Pacific. The Group currently has $1,195m in approved warehouse facilities with $337m of unused availability as at 31 December 2016.

Mezzanine facilities are also asset backed and are non-recourse to the Group. Mezzanine facilities support the warehouse facilities by providing "first loss" capital to the SPVs. The Group currently has $60m in approved mezzanine facilities.

Corporate Debt facilities fund a range of general corporate expenses, including ongoing working capital needs and the acquisition of new businesses. This debt is guaranteed by and has recourse to the Group. The Group currently has $70m in approved corporate debt facilities with $11m unused.

Principal Risks

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

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

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

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

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

Business Strategies and Prospects

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

In Australia, NZ and the UK, SMEs continue to be underserved by traditional bank lending practices and it is this opportunity that Scottish Pacific seeks to maximise. Successful product innovation has been and will continue to be an important driver of business growth.

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

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

A small acquisition in the UK trade finance market was completed on 6 January 2017 when the Group acquired Sterling Trade Finance Ltd ("Sterling") for £0.7m. The Group will also take on the funding of the existing loan book (approx. £1.2m) until a suitable external wholesale funder can be found.

Sterling is to be renamed Scottish Pacific Trade Finance (UK) Ltd. The existing staff are very experienced in the UK market and all are remaining with the business. Sterling already has a small portfolio of debtor finance clients in addition to their trade finance portfolio which provides the Group the ability to immediately expand our product offering in the UK while adding more efficient scale to our UK operation. The acquisition will be earnings accretive immediately and the purchase has been funded from the Group's internal cash flow.

The servicing of SME lending is labour intensive. With the benefit of additional scale from recent acquisitions, management will be looking to further reduce the operating costs as a percentage of Net Revenue.

We continue to invest in technology as an enabler and to make our processes more efficient. There is a constant stream of new technology becoming available to help us going forward.

Financial Review

Income Statement
On a statutory reporting basis, Net Revenue increased by $22.8m (84%) to $49.9m (December 2015: $27.2m). This was driven by:

- continued organic growth within the Group's stand-alone business
- the inclusion of revenues for the Bibby business for this 6 month period for the first time
- the inclusion of the GE client portfolio revenues for this 6 month period for the first time
- the inclusion of the Suncorp client portfolio revenues for this 6 month period for the first time

Total statutory expenses increased by $17.8m (89%) to $37.6m (December 2015: $19.8m). This was driven by:

- additional expenses intrinsically linked to the additional revenues generated by the newly acquired business and client portfolios
- additional expenses intrinsically linked to the ongoing organic growth of the core business
- a number of large non-repeating expenses incurred in preparing the Group for the IPO which took place on 13 July 2016

The Group recorded a statutory net profit before tax of $8.5m (December 2015: $5.1m). This represented a $3.4m increase on the FY20161H result but, as outlined above, this trading result included three businesses acquired on and after 31 December 2015.

Balance Sheet

The Balance Sheet at 31 December 2016 when compared to that at 30 June 2016 shows the impact of:

- client receivables increasing by 18% from $745.6m to $878.4m reflecting the seasonal high point in client funding which occurs at 31 December
- restricted cash (which is directly linked to client receivables and securitised debt facilities) fell from $129.2m to $60.0m
- drawn securitised debt facilities increased 6% from $812.6m to $858.4m
- after allowing for restricted cash securitised debt facilities increased by 17%
- drawn corporate loan facilities decreased 14% from $63.7m to $54.6m as $10.0m was repaid from proceeds of listing
- share capital increased 41% from $146.1m to $206.7m (after transaction costs) following the listing of the company.

Undrawn securitised debt facilities are $337m of a total of $1,195m. Undrawn corporate loan facilities are $11m of a total of $70m.

Significant changes in the state of affairs

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

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

The proceeds of the IPO were applied to:

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

A dividend of $36.3m was paid to holders of ordinary shares in the Company as at 13 July 2016.

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

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

Matters subsequent to the end of the financial half-year

It is noted above that the Group acquired Sterling Trade Finance Ltd ("Sterling") for £700,000 subsequent to the end of financial year.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Environmental Regulation

The group is not subject to any significant environmental regulations under both Commonwealth and State legislation.

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

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors

Mr P Elliott
Director

28 February 2017
Sydney

Deloitte.

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

28 February 2017

Dear Board Members

Scottish Pacific Group Limited

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

As lead audit partner for the review of the financial statements of Scottish Pacific Group Limited for the financial half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants

General information

The financial statements cover Scottish Pacific Group Limited as a Group consisting of Scottish Pacific Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2016. The financial statements are presented in Australian dollars, which is Scottish Pacific Group Limited functional and presentation currency.

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

Level 5, 20 Bond Street
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2017.

Scottish Pacific Group Limited
Condensed statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Note	Consolidated Half-year ended 31 Dec 2016 $'000	Consolidated Half-year ended 31 Dec 2015 $'000
Revenue			
Fee income		34,170	17,375
Interest income		33,341	18,394
Interest expense		(17,648)	(8,539)
		15,693	9,855
Net revenue		49,863	27,230
Expenses			
Employee benefits expense		(16,953)	(10,023)
Office & administration expense		(7,453)	(4,830)
Professional fees		(10,133)	(4,321)
Bad & doubtful debts		230	(403)
Depreciation & amortisation		(3,287)	(279)
Operating profit		12,267	7,374
Borrowing expense		(2,639)	(2,239)
Profit before income tax expense		9,628	5,135
Income tax expense	4	(1,129)	(1,579)
Profit after income tax expense for the half-year attributable to the owners of Scottish Pacific Group Limited	14	8,499	3,556
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		-	(15)
Foreign currency translation		217	493
Other comprehensive income for the half-year, net of tax		217	478
Total comprehensive income for the half-year attributable to the owners of Scottish Pacific Group Limited		8,716	4,034
		Cents	**Cents**
Basic earnings per share	18	6.18	4.73
Diluted earnings per share	18	6.17	4.55

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

Scottish Pacific Group Limited
Condensed statement of financial position
As at 31 December 2016

	Note	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Assets			
Cash and cash equivalents		10,558	16,112
Restricted cash	5	59,966	129,262
Client receivables	6	878,465	745,688
Current tax asset	4	3,408	1,142
Other receivables		3,760	6,450
Deferred tax	4	9,032	5,356
Property, plant and equipment		2,058	2,086
Intangibles	7	11,515	14,416
Goodwill		148,305	148,305
Total assets		1,127,067	1,068,817
Liabilities			
Trade and other payables	8	13,666	25,164
Provisions	9	4,047	4,196
Debt facilities	10	858,344	812,600
Borrowings	11	54,636	63,711
Total liabilities		930,693	905,671
Net assets		196,374	163,146
Equity			
Issued capital	12	206,959	146,118
Reserves	13	1,107	998
(Accumulated losses)/Retained profits	14	(11,692)	16,030
Total equity		196,374	163,146

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

Scottish Pacific Group Limited
Condensed statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Issued capital $'000	Foreign currency reserve $'000	Other reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2015	75,238	624	83	15,744	91,689
Profit after income tax expense for the half-year	-	-	-	3,556	3,556
Other comprehensive income for the half-year, net of tax	-	493	(15)	-	478
Total comprehensive income for the half-year	-	493	(15)	3,556	4,034
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	49,922	-	-	-	49,922
Balance at 31 December 2015	125,160	1,117	68	19,300	145,645

Consolidated	Issued capital $'000	Foreign exchange reserve $'000	Other reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	146,118	890	108	16,029	163,145
Profit after income tax expense for the half-year	-	-	(108)	8,607	8,499
Other comprehensive income for the half-year, net of tax	-	217	-	-	217
Total comprehensive income for the half-year	-	217	(108)	8,607	8,716
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 12)	60,841	-	-	-	60,841
Dividends paid (note 15)	-	-	-	(36,328)	(36,328)
Balance at 31 December 2016	206,959	1,107	-	(11,692)	196,374

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

Scottish Pacific Group Limited
Condensed statement of cash flows
For the half-year ended 31 December 2016

	Note	Consolidated Half-year ended 31 Dec 2016 $'000	Consolidated Half-year ended 31 Dec 2015 $'000
Cash flows from operating activities			
Net fees and interest received from customers (inclusive of GST)		50,272	27,732
Payments to suppliers and employees (inclusive of GST)		(44,081)	(14,673)
		6,191	13,059
Interest and finance costs paid		(2,025)	(2,239)
Security deposits refunded/(paid)		3,468	(2,859)
Income tax paid		(5,293)	(2,778)
Net cash from operating activities		2,341	5,183
Cash flows from investing activities			
Payments for client receivables		(65,861)	(39,596)
Payment relating to acquisitions		-	(114,930)
Payments for property, plant and equipment		(308)	(192)
Net cash used in investing activities		(66,169)	(154,718)
Cash flows from financing activities			
Proceeds from issue of shares	12	58,954	47,087
Repayment of lease financing		(95)	-
Proceeds from securitised debt		45,743	33,934
Proceeds from corporate borrowings		-	100,000
Repayment of corporate borrowings		(10,000)	-
Payment of borrowing establishment costs		-	2,482
Repayment of mezzanine finance		-	(23,969)
Dividends paid	15	(36,328)	-
Net cash from financing activities		58,274	159,534
Net increase/(decrease) in cash and cash equivalents		(5,554)	9,999
Cash and cash equivalents at the beginning of the financial half-year		16,112	11,762
Cash and cash equivalents at the end of the financial half-year		10,558	21,761

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Basis of preparation

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

For the half year ended 31 December 2015 the Group's consolidated financial statements were prepared in accordance with Australian Accounting Standards - Special Purpose Financial Statements as issued by the Australian Accounting Standards Board (AASB).

For the half year ended 31 December 2016 the Group prepared general purpose financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. In addition to the recognition, classification and measurement principles previously complied with, these also comply with the disclosure and presentation principles for both the current year and the comparative period.

In accordance with AASB 1 'First time adoption of Australian Accounting Standards' the Group has adopted all relevant AASB standards for the half-year year ended 31 December 2016 and the comparative period ended 30 June 2016. No recognition, classification or measurement adjustments to the comparative balances have been noted as a result of the first time application of Australian Accounting Standards.

Compliance with IFRS

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

Rounding of amounts

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Scottish Pacific Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial half-year, adjusted for bonus elements in ordinary shares issued during the financial half-year.

Diluted earnings per share

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

Note 1. Significant accounting policies (continued)

Amended Disclosures
Following the adoption of AASB 1 of the Group's financial statements have been amended to provide more relevant presentation of financial information in a manner comparable to the presentation adopted in the full year June 2016 Annual Report.

Specifically the Group has amended the presentation of the prior year comparatives in the Statement of Cashflows as follows;

- Operating Activities excludes invoice turnover and separately discloses interest and other finance costs paid, and security deposits repaid.
- Financing Activities details proceeds from borrowings into specific components being securitised debt and corporate borrowings.

Note 2. Critical accounting judgements, estimates and assumptions

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

Provision for impairment of client receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

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

Goodwill and other indefinite life intangible assets
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal. These calculations require the use of assumptions, including the Group's current year forecasted earnings, average price-earnings multiples for similar ASX listed companies, and estimated applicable selling costs.

Note 3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into two operating segments:

- *Debtor Finance:* Credit provided to clients through a range of options including factoring, invoice discounting and more specialised products. The segment encompasses operation of the Group and the four limited recourse funding vehicles.

- *Trade Finance:* Cross-border transactions through Tradeline and Import/Export Finance which are not funded through one of the limited recourse funding vehicles.

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

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

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

Geographic and Customer segments

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

Consolidated - Half-year ended 31 Dec 2016	Debtor Finance $'000	Trade Finance $'000	Total $'000
Revenue			
Management Fees	31,508	2,662	34,170
Net interest income	15,900	(207)	15,693
Net revenue	47,408	2,455	49,863
Employee benefits expense	(15,986)	(967)	(16,953)
Office and administration expense	(7,025)	(428)	(7,453)
Professional fees	(10,047)	(86)	(10,133)
Bad & doubtful debts	364	(134)	230
Depreciation and amortisation	(3,267)	(20)	(3,287)
Borrowing costs	(2,639)	-	(2,639)
Profit before income tax expense	8,808	820	9,628
Income tax expense			(1,129)
Profit after income tax expense			8,499
Assets			
Segment assets	1,115,782	11,285	1,127,067
Total assets			1,127,067
Liabilities			
Segment liabilities	925,310	5,383	930,693
Total liabilities			930,693

Note 3. Operating segments (continued)

Consolidated - Half-year ended 31 Dec 2015	Debtor Finance $'000	Trade Finance $'000	Total $'000
Revenue			
Management fees	15,171	2,204	17,375
Net interest income	9,966	(111)	9,855
Net revenue	25,137	2,093	27,230
Employee benefits expense	(9,068)	(955)	(10,023)
Office administration expense	(4,242)	(588)	(4,830)
Professional fees	(4,203)	(118)	(4,321)
Bad & doubtful debts	(328)	(75)	(403)
Depreciation and amortisation	(272)	(7)	(279)
Borrowing costs	(2,239)	-	(2,239)
Profit before income tax expense	4,785	350	5,135
Income tax expense			(1,579)
Profit after income tax expense			3,556
Assets			
Segment assets	1,058,399	10,418	1,068,817
Total assets			1,068,817
Liabilities			
Segment liabilities	902,600	3,071	905,671
Total liabilities			905,671

Note 4. Income tax

	Consolidated Half-year ended 31 Dec 2016 $'000	Consolidated Half-year ended 31 Dec 2015 $'000
Income tax expense		
Current tax	4,910	2,420
Deferred tax - origination and reversal of temporary differences	(2,102)	(841)
Adjustment recognised for prior periods	(1,679)	-
Aggregate income tax expense	1,129	1,579
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(2,102)	(841)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	9,628	5,135
Tax at the statutory tax rate of 30%	2,888	1,541
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	110	38
Share capital raising costs	(190)	-
	2,808	1,579
Adjustment recognised for prior periods	(1,679)	-
Income tax expense	1,129	1,579

	Consolidated Half-year ended 31 Dec 2016 $'000	Consolidated Half-year ended 31 Dec 2015 $'000
Amounts credited directly to equity		
Deferred tax assets	(1,574)	-

Note 4. Income tax (continued)

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Impairment of receivables	1,738	1,593
Provisions	1,649	2,101
Accrued expenditure	1,400	1,780
Capital costs - IPO & Other	4,818	2,839
Borrowing costs	1,308	1,375
Unrealised foreign exchange (gains) / losses	-	(7)
Intangible client relationships	(3,455)	(4,325)
	7,458	5,356
Amounts recognised in equity:		
Transaction costs on share issue	1,574	-
Deferred tax asset	9,032	5,356
Movements:		
Opening balance	5,356	4,515
Credited to profit or loss	2,102	841
Credited to equity	1,574	-
Closing balance	9,032	5,356

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Income tax refund due		
Income tax refund due	3,408	1,142

Note 5. Restricted cash

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Trust cash - operating	38,717	74,203
Trust cash - collection	20,487	50,828
Security deposits held against bank guarantees	762	4,231
	59,966	129,262

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

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

Note 6. Client receivables

	Consolidated	
	31 Dec 2016 $'000	**30 Jun 2016 $'000**
Client receivables	884,742	750,997
Less: Provision for impairment of client receivables	(6,277)	(5,309)
	878,465	745,688

Note 7. Intangibles

	Consolidated	
	31 Dec 2016 $'000	**30 Jun 2016 $'000**
Client relationships - at cost	16,527	16,527
Less: Accumulated amortisation	(5,012)	(2,111)
	11,515	14,416

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

Consolidated	Customer relationships $'000	Total $'000
Balance at 1 July 2016	14,416	14,416
Amortisation expense	(2,901)	(2,901)
Balance at 31 December 2016	11,515	11,515

Note 8. Trade and other payables

	Consolidated	
	31 Dec 2016 $'000	**30 Jun 2016 $'000**
Trade payables - Debtor Finance	1,414	4,036
Trade payables - Trade Finance	2,050	2,892
Lease incentive payable	594	735
Other payables	9,608	17,501
	13,666	25,164

Refer to note 16 for further information on financial instruments.

In the prior period, Other payables includes $8.0m of accrued costs for transaction, integration and restructure costs and IPO related costs.

Note 9. Provisions

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Provision for annual leave	1,652	1,797
Provision for long service leave	1,406	1,299
Provision for make good	466	338
Provision for onerous lease	523	762
	4,047	4,196

Note 10. Debt facilities

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Debt facilities - securitised	858,344	812,600

Note 11. Borrowings

	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Loan facility	54,087	63,067
Secured loan	549	644
	54,636	63,711

Refer to note 16 for further information on financial instruments.

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

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

Note 12. Issued capital

	Consolidated 31 Dec 2016 Shares	Consolidated 30 Jun 2016 Shares	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
A Class shares - fully paid	139,191,601	112,358,765	206,959	146,118

Note 12. Issued capital (continued)

Movements in ordinary share capital

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

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

Details	Date	Shares		$'000
Balance as at	1 July 2016	112,358,765	$0.00	146,118
Issue of Class A Ordinary Shares in IPO on	13 July 2016	24,162,014	$3.20	77,318
Issue of Class A Ordinary Shares employee offer shares	13 July 2016	67,080	$0.00	-
Issue of Class A Ordinary Shares on exercise of LTI options	13 July 2016	2,603,742	$0.00	-
Repurchase of LTI equity interests	13 July 2016	-	$0.00	(12,075)
Transaction costs net of tax benefit	13 July 2016	-	$0.00	(4,402)
Balance	31 December 2016	139,191,601		206,959

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

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

Share buy-back
There is no current on-market share buy-back.

Note 13. Reserves

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Foreign currency reserve	1,107	890
Share-based payments reserve	-	108
	1,107	998

Note 14. (Accumulated losses)/Retained profits

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$'000	$'000
Retained profits at the beginning of the financial half-year	16,029	15,931
Profit after income tax expense for the half-year	8,607	99
Dividends paid (note 15)	(36,328)	-
(Accumulated losses)/Retained profits at the end of the financial half-year	(11,692)	16,030

Payment of the pre-IPO dividend of $36.3m represents a return of value built-up in the business by the previous owners. At the time of payment the dividend was considered fair and reasonable to the company's shareholders as a whole and did not prejudice the company's ability to pay it's creditors.

Note 15. Dividends

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

	Consolidated	
	Half-year ended 31 Dec 2016	**Half-year ended 31 Dec 2015**
	$'000	**$'000**
Final dividend for the year ended 30 June 2016 of 31.6 cents per ordinary share	36,328	-

A dividend of $0.316 per share franked to 100% amounting to $36.3m was declared and paid to holders of ordinary shares in the Company as at 13 July 2016.

Franking credits

	Consolidated	
	31 Dec 2016	**30 Jun 2016**
	$'000	**$'000**
Franking credits available for subsequent financial years based on a tax rate of 30%	5,896	24,354

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

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

Note 16. Financial instruments

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

Note 16. Financial instruments (continued)

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Group are as follows:

	31 Dec 2016		30 Jun 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Consolidated	$'000	$'000	$'000	$'000
Financial Assets				
Cash and cash equivalents	10,558	10,558	16,112	16,112
Restricted cash	59,966	59,966	129,262	129,262
Client receivables	878,465	878,465	745,688	745,688
Other receivables	3,760	3,760	6,450	6,450
	952,749	952,749	897,512	897,512
Financial Liabilities				
Trade payables	13,666	13,666	25,164	25,164
Debt facilities	858,344	858,344	812,600	812,600
Borrowings	54,636	54,636	63,711	63,711
	926,646	926,646	901,475	901,475

Note 17. Events after the reporting period

A small acquisition in the UK trade finance market was investigated in the later part of FY2017H1. That culminated on 6 January 2017 when the Group acquired Sterling Trade Finance Ltd (“Sterling”) for GBP700,000. The Group will also take on the funding of the existing loan book (approx. GBP1.2m) until a suitable external wholesale funder can be found.

Sterling is to be renamed Scottish Pacific Trade Finance (UK) Ltd. The four existing staff members are all very experienced in the UK market and all are remaining with the business. Sterling already has a small portfolio of debtor finance clients in addition to their trade finance portfolio which provides the Group the opportunity to immediately expand our product offering in the UK. The acquisition will be earnings accretive immediately and the purchase has been funded from the Group’s internal cash flow.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 18. Earnings per share

	Consolidated	
	Half-year ended 31 Dec 2016	Half-year ended 31 Dec 2015
	$'000	$'000
Profit after income tax attributable to the owners of Scottish Pacific Group Limited	8,499	3,556
Cash flow hedge movement	-	(15)
Foreign currency translation	217	493
Profit after income tax attributable to the owners of Scottish Pacific Group Limited used in calculating diluted earnings per share	8,716	4,034
	Cents	Cents
Basic earnings per share	6.18	4.73
Diluted earnings per share	6.17	4.55

Note 18. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	137,432,071	75,166,905
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	198,268	3,023,584
Weighted average number of ordinary shares used in calculating diluted earnings per share	137,630,339	78,190,489

Scottish Pacific Group Limited
Directors' declaration
31 December 2016

In the directors' opinion:

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

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and

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

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

On behalf of the directors

Mr P Elliott
Director

28 February 2017
Sydney

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

We have reviewed the accompanying half-year financial report of Scottish Pacific Group Limited, which comprises the condensed statement of financial position as at 31 December 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 26.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Scottish Pacific Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants
Sydney, 28 February 2017