29 June 2015

ASX Announcement

Market Update

Since Wednesday 24 June Slater and Gordon (SGH) (Company) has engaged proactively with the Australian Securities and Investments Commission (ASIC) following ASIC's routine review of Pitcher Partners' (PP) audit process of the Company. The Company asked ASIC to raise with it any queries it had as expeditiously as possible. The Company advised ASIC that it would fully cooperate and was eager to resolve all ASIC queries as soon as reasonably possible.

On the evening of Friday 26 June, the Company was notified by PP that ASIC intends to raise some queries directly with the Company.

The Company has engaged Ernst & Young (EY) to independently assess the Company's responses to ASIC's queries. The EY assessment will be overseen by the Audit, Risk and Compliance Committee of the Board.

The Company and PP have commenced a detailed analysis of the financial information to be provided to ASIC. In the course of that initial analysis, a consolidation error (see attached disclosure) in the reporting of the historical UK cashflows has been identified. The Company has been advised by its auditors that the usual way of dealing with such an error is a note affixed to the FY15 Financial Statements. A draft of the proposed disclosure is attached.

The net operating cash-flows, as reported, remain unchanged. The Consolidated Statements of Comprehensive Income and the Consolidated Statements of Financial Position also remain unchanged. The Company will provide an update to the market regarding the EY assessment during July.

Quindell

On 25 June, the Company noted the FCA's engagement with Quindell Plc and advised that the Company was confident that it had no liability arising from that enquiry. Further to that, and to avoid the market trading with imperfect information, the Company further advises the following:

- On the basis of a published FCA statement, the FCA enquiry concerns public statements of Quindell Plc during 2013 and 2014.
- The Company did not acquire Quindell Plc or the common stock of the Quindell Plc and, as a result, is satisfied that in the event that any findings are made against Quindell Plc those findings will not expose the Company to any material financial risk.
- The Company notes that Quindell Plc is due shortly to lodge accounts with the AIM. Those accounts will present Quindell Plc's view of the PSD's assets on disposal. The Company reiterates that its evaluation of the fair value of the PSD assets was undertaken with the assistance of EY and the Company's assessment of the value of those assets was undertaken under the Company's own accounting policies.

Attachment

Consolidation Error identified in Statements of Cashflows in prior periods for Slater and Gordon UK

A detailed analysis of the Company's historical Consolidated Statement of Cashflows has identified two errors in the method used to report receipts from customers and payments to suppliers and employees by the UK business.

From the initial date of acquisition of Russell Jones and Walker LLP in the year ended 30 June 2012 until the period ending 31 December 2013, the UK business reported receipts from customers on a 'gross' rather than a 'net' basis. This effect was wholly offset by the same amount being added to the calculation of total payments to suppliers and employees. The amounts represented customer disbursements and related Value Added Tax (VAT). Net cash derived from operating activities in all periods was unaffected and remains as reported.

In the 30 June 2014 and 31 December 2014 financial statements UK VAT is included twice in receipts from customers. This effect was wholly offset by the same amount being added to the calculation of total payments to suppliers and employees. The cause of this was an arithmetic error in the consolidation spreadsheet model operated in the Company's UK business at that time. Net cash derived from operating activities in all periods was unaffected and remains as reported.

The table below sets out the impact of the errors in each of the reporting periods. As is normal practice for errors of this type, the disclosures will be repeated and comparative data will be amended in the 30 June 2015 Financial Statements.

	Reporting Period					
	Full Year Ended 30/06/2012 (1) A$'000	Half Year Ended 31/12/2012(1) A$'000	Full Year Ended 30/06/2013(1) A$'000	Half Year Ended 31/12/2013(1) A$'000	Full Year Ended 30/06/2014(2) A$'000	Half Year Ended 31/12/2014(2) A$'000
As Stated in the Statutory Financial Reports						
Cash flow from operating activities						
Receipts from customers	202,929	168,782	324,279	199,619	442,609	261,186
Payments to suppliers and employees	(182,110)	(148,154)	(285,148)	(174,922)	(375,225)	(229,337)
Interest received	357	131	281	173	401	171
Borrowing costs	(5,374)	(3,275)	(6,158)	(2,300)	(5,344)	(3,191)
Income tax (paid)/refunded	157	-	(537)	(1,544)	(8,006)	(2,306)
Net cash provided by operating activities	**15,959**	**17,484**	**32,717**	**21,026**	**54,435**	**26,523**
Restated to Account for Error						
Cash flow from operating activities						
Receipts from customers	199,813	153,062	288,719	172,150	410,142	239,840
Payments to suppliers and employees	(178,994)	(132,434)	(249,588)	(147,453)	(342,758)	(207,991)
Interest received	357	131	281	173	401	171
Borrowing costs	(5,374)	(3,275)	(6,158)	(2,300)	(5,344)	(3,191)
Income tax (paid)/refunded	157	-	(537)	(1,544)	(8,006)	(2,306)
Net cash provided by operating activities	**15,959**	**17,484**	**32,717**	**21,026**	**54,435**	**26,523**
Difference in net cash provided by operating activities	-	-	-	-	-	-

Notes

1 Incorrectly accounting for client disbursements and related VAT

2 Arithmetic error due to double counting of VAT