

Pioneer Credit Limited
Interim report
for the half-year ended 31 December
2013

Pioneer Credit Limited ABN 44 103 003 505
Interim report - 31 December 2013

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This non-statutory interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pioneer Credit Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors

The following persons held office as directors of Pioneer Credit Limited during the financial period and up to the date of this report:

Mr Keith John
Mr Mark Dutton
Mr James Singh
Mr Michael Smith (Chairman) (appointed 7 February 2014)
Mr Robert Bransby (appointed 7 February 2014)

Principal activities

Pioneer Credit is an Australian financial services provider, specialising in acquiring and servicing retail debt portfolios. These portfolios consist of individuals with financial obligations to Pioneer Credit and are the cornerstone of our customer relationships. We value and respect our customers greatly. We work with our customers over time so that they can meet their obligations and progress toward financial recovery, and through this process evolve as a 'new consumer'.

No significant change in the nature of these activities occurred during the period.

Review of operations

The profit from ordinary activities after income tax for the financial period amounted to \$1,043,000. The taxation expense for the financial period includes the recognition of an under-provision of \$175,000 for prior financial periods.

Matters subsequent to the end of the financial period

The following events have occurred subsequent to 31 December 2013:

- Two additional directors were appointed on 7 February 2014.
- One director was granted 300,000 period dependent ordinary share options.
- Pioneer Credit Pty Ltd converted to a public company on 7 February 2014.

Other than for the above, no matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Rounding of amounts

The Company 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.

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


Mr Keith John
Director

Perth
14 February 2014

Pioneer Credit Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2013

	Notes	Half-year 31 December 2013 \$'000
Revenue from continuing operations	3	11,134
Employee expense		(4,940)
Direct expenses		(1,094)
Finance expenses		(795)
Rental expenses		(587)
Other expenses		(576)
Professional expenses		(566)
Information technology and communications		(514)
Depreciation and amortisation expense		(171)
Profit before income tax	4	<u>1,891</u>
Income tax expense	5	(848)
Profit for the period		<u>1,043</u>
Total comprehensive income for the period		<u>1,043</u>
Profit is attributable to:		
Owners of Pioneer Credit Limited		<u>1,043</u>

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

Pioneer Credit Limited
Consolidated balance sheet
As at 31 December 2013

	31 December 2013	30 June 2013
Notes	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	890	967
Trade and other receivables	1,115	778
Other current assets	158	144
Financial assets at fair value	6 23,644	21,081
	<u>25,807</u>	<u>22,970</u>
Total current assets	<u>25,807</u>	<u>22,970</u>
Non-current assets		
Receivables	-	223
Property, plant and equipment	739	715
Intangible assets	61	-
Deferred tax assets	318	203
Financial assets at fair value	6 24,413	17,850
Total non-current assets	<u>25,531</u>	<u>18,991</u>
Total assets	<u>51,338</u>	<u>41,961</u>
LIABILITIES		
Current liabilities		
Trade and other payables	5,774	2,481
Borrowings	7 8,367	6,571
Current tax liabilities	1,166	1,223
Accruals, provisions and other liabilities	955	1,276
	<u>16,262</u>	<u>11,551</u>
Total current liabilities	<u>16,262</u>	<u>11,551</u>
Non-current liabilities		
Borrowings	8 12,049	8,838
Other financial liabilities	9 8,912	8,497
Total non-current liabilities	<u>20,961</u>	<u>17,335</u>
Total liabilities	<u>37,223</u>	<u>28,886</u>
Net assets	<u>14,115</u>	<u>13,075</u>
EQUITY		
Contributed equity	9,088	9,091
Retained earnings	5,027	3,984
Capital and reserves attributable to owners of Pioneer Credit Limited	<u>14,115</u>	<u>13,075</u>
Total equity	<u>14,115</u>	<u>13,075</u>

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

Pioneer Credit Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2013

Attributable to owners of Pioneer Credit Limited

	Contributed equity \$'000	Convertible Redeemable Preference Shares \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2013	3,674	5,417	3,984	13,075
Profit for the period	-	-	1,043	1,043
Deferred tax through equity	-	-	(3)	(3)
Balance at 31 December 2013	3,674	5,414	5,027	14,115

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

Pioneer Credit Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2013

		Half-year 31 December 2013 \$'000
	Notes	
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)		16,117
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(5,337)</u>
		10,780
Interest received	3	11
Interest paid		(375)
Income taxes paid		<u>(1,032)</u>
Net cash inflow from operating activities		<u>9,384</u>
Cash flows from investing activities		
Payments for property, plant and equipment		(185)
Payments for intangible assets		(71)
Payments for financial assets at fair value through profit or loss		<u>(14,235)</u>
Net cash outflow from investing activities		<u>(14,491)</u>
Cash flows from financing activities		
Proceeds from issues of convertible redeemable preference shares		99
Proceeds from borrowings		12,387
Repayment of borrowings		(7,380)
Loans from related parties		408
Repayment of loans from related parties		<u>(484)</u>
Net cash inflow from financing activities		<u>5,030</u>
Net decrease in cash and cash equivalents		<u>(77)</u>
Cash and cash equivalents at the beginning of the financial year		967
Cash and cash equivalents at end of period		<u>890</u>

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated non-statutory interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The interim financial statements are for the consolidated entity consisting of Pioneer Credit Limited and its subsidiaries.

Basis of preparation of half-year report

This half-year financial report has been prepared on the basis that the Group is preparing for an initial public offering ("IPO") on the Australian Stock Exchange ("ASX"). The results for the six months ended and balances at 31 December 2013 will be included in the public prospectus that will be lodged with the ASX prior to the IPO.

(i) Significant accounting policies

This non-statutory consolidated interim report for the half-year reporting period ended 31 December 2013 has been prepared using the same accounting policies and methods of computation adopted and disclosed in the preparation of the annual financial statements of Pioneer Credit Limited for the year ended 30 June 2013, unless otherwise stated.

This non-statutory interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013. The directors have considered the disclosures included in this financial report to be sufficient to meet the needs of the members.

(ii) Comparative information

The Company is not a disclosing entity and is not required to prepare general purpose interim financial reports that conform to Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. In addition this is the first time the Company is preparing an interim financial report. The directors have elected to provide comparative information on the consolidated balance sheet only.

2 Fair value measurements

(a) Fair value hierarchy

AASB 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

2 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013:

At 31 December 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Financial assets at FVTPL	-	-	48,057	48,057
Total assets	-	-	48,057	48,057
<hr/>				
At 30 June 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Financial assets at FVTPL	-	-	38,931	38,931
Total assets	-	-	38,931	38,931

FVTPL - Fair value through profit or loss

(b) Valuation techniques used to derive level 3 fair values

If one or more of the significant inputs is not based on observable market data (unobservable inputs), the instrument is included in level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. This is the case for purchased debt ledgers for which there is not considered to be a sufficiently active secondary market due to contractual restrictions and barriers to entry in the industry.

The fair value of financial instruments that are not traded in an active market, the purchased debt ledgers, is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The specific valuation technique used to determine the fair value of financial instruments is a Discounted Cash Flow (DCF) approach, which incorporates the following variables:

- Expected recovery rate - expressed as a percentage of the face value
- Face value - of purchased debt ledgers acquired
- Cash flow liquidation period - the period over which cash flows liquidate
- Discount rate - factors in a risk free interest rate and appropriate credit adjustment for risks not built into the underlying cash flows expected to be recovered
- Cost - acquisition cost of recently acquired purchased debt ledgers

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the period ended 31 December 2013:

	31 December 2013 \$'000
Opening balance at 1 July 2013	38,931
Payment for financial assets	14,235
Change in value of purchased debt ledgers included in revenue	(5,109)
	<u>48,057</u>

2 Fair value measurements (continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (continued)

(i) Transfers between levels and changes in valuation techniques

There were no transfers between the levels of the fair value hierarchy in the period to 31 December 2013. There were also no changes made to any of the valuation techniques applied as of 31 December 2013.

(ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative impact on those elements of the PDL that are sensitive to the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Relationship to Fair Value
Financial Assets at FVTPL	48,057	Discounted Cash Flow and Validation	Expected recovery rate and face value	1% change in recovery rate applied to face value	A reduction in recovery rate by 1% results in a decrease in fair value on total estimated cash flows by \$1,728,210, an increase results in an increase in fair value on total estimated cash flows of \$1,728,210.
			Cash flow liquidation period	Impact of a seven year liquidation period versus a six year liquidation period	Results in a decrease in fair value of \$992,666.
			Discount rate	Variance in risk-adjusted discount rate by 100bps	The higher the risk-adjusted rate the lower the fair value. A reduction in rate by 100bps results in an increase in fair value by \$745,567, an increase results in a decrease in fair value of \$718,237.

(iii) Valuation processes

The key assumption in valuation of the purchased debt ledgers is in determining the recovery rate. Assumptions about the recovery rate are made based on product characteristics, payment history, market conditions and management experience.

At time of purchase the price paid is determined by an open market tender process in which participants perform their own due diligence and determine the price they are willing to pay. Existing in house knowledge of the portfolio under offer or similar equivalents is utilised along with a consideration of macro and micro economic factors and are assessed using the experience of senior management.

Subsequent to purchase, fair value adjustments are made in line with revenue liquidations. An assessment of gross nominal future cash flow is made over periods varying from six to eight years depending on the level of liquidation history within a portfolio. Discount rates used to present value the gross nominal future cash flows incorporate a risk free rate and appropriate credit adjustment for risks not built into the underlying cash flows expected to be recovered.

The main level 3 inputs used by the Group in measuring the fair value of financial instruments are derived and evaluated as follows:

2 Fair value measurements (continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (continued)

- Expected recovery rate: Product characteristics, payment and liquidation history and management experience with historic performance of comparable portfolios.
- Face value: Determined at the date the purchased debt ledger was acquired.
- Cash flow liquidation period: Periods range from six to eight years depending on liquidation history.
- Discount rate: incorporate a risk free rate and appropriate credit adjustment for risks not built into the underlying cash flows expected to be recovered.
- Cost: recently acquired purchased debt ledgers may be valued at cost.

Consistent with the manner in which purchased debt ledgers are managed, performance is evaluated on a fair value basis, independent validation of the fair value determined under the DCF approach is undertaken. The validation comprises an overall review of key elements contributing to cash liquidations including analysis of the quantum, tenure and qualitative characteristics of the payment arrangements performance as well as assessment of performance on other key observable customer statuses.

3 Revenue

	31 December 2013 \$'000
Revenue from operation	
From continuing operations	
Operating revenues	
Liquidation of cash flows from purchased debt ledgers	15,922
Change in value of purchased debt ledgers	<u>(5,109)</u>
Net gain on financial assets - purchased debt ledgers	10,813
Services	310
Other revenue	
Interest	11
	<u>11,134</u>

4 Profit for the half-year

	31 December 2013 \$'000
Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:	
<i>Non-recurring professional fees</i>	
Consulting fees	65
Accounting fees	6
Legal fees	<u>76</u>
	<u>147</u>
<i>Convertible Redeemable Preference Share Dividend</i>	
CRPS B and C	<u>316</u>

5 Income tax expense

Income Tax Expense

	31 December 2013 \$'000
Current tax	791
Prior period under-provision	175
Deferred tax	(118)
	848

6 Current assets - Financial assets at fair value

The following table presents the Group's assets which are measured and recognised at fair value at 31 December 2013. The assets below are financial instruments which are classified as level 3 under the hierarchy set out in AASB 7 - Financial Instruments: Disclosures. Further details are set out in note 2.

	31 December 2013 \$'000	30 June 2013 \$'000
The amount of the financial assets at fair value is classified as follows:		
Current	23,644	21,081
Non-current	24,413	17,850
	48,057	38,931

	31 December 2013 \$'000
Current and non-current	
At beginning of year	38,931
Additions for the year	14,236
Liquidation of cash flows from purchased debt ledgers	(15,922)
Net gain on financial assets disclosed in revenue	10,813
	48,057

Changes in fair values of financial assets at fair value through profit or loss are recorded in the statement of comprehensive income.

7 Current liabilities - Borrowings

	31 December 2013 \$'000	30 June 2013 \$'000
Secured		
Bank loans	4,168	3,044
Unsecured		
Other loans	4,199	3,527
Total current borrowings	<u>8,367</u>	<u>6,571</u>

Other loans are non-interest bearing.

8 Non-current liabilities - Borrowings

	31 December 2013 \$'000	30 June 2013 \$'000
Secured		
Bank loans	<u>12,049</u>	<u>8,838</u>

Secured liabilities and assets pledged as security

Unlimited commercial guarantee and indemnity by Pioneer Credit Limited and Sphere Legal Pty Ltd. Security over all property of Pioneer Credit Limited, Pioneer Credit Acquisition Services Pty Ltd and Sphere Legal Pty Ltd.

9 Non-current liabilities - Other financial liabilities

	31 December 2013 \$'000	30 June 2013 \$'000
Convertible redeemable preference shares	<u>8,912</u>	<u>8,497</u>

A total of \$98,700 (82,251 convertible redeemable preference shares, class C) was raised during the period.

10 Contingencies

As at 31 December 2013, the Group has determined that a contingent liability exists for a pending legal action of approximately \$270,000 (inclusive of legal fees) and an existing contingent fee for \$600,000. No provision in relation to these matters has been recognised in the financial statements as the outcome of both is uncertain at this point in time.

The directors are of the opinion that no contingent assets exist as at the date of this report.

11 Events occurring after the reporting period

Other than for the below, no matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

The following events have occurred subsequent to 31 December 2013:

- Two additional directors were appointed on 7 February 2014.
- One director was granted 300,000 period dependent ordinary share options.
- Pioneer Credit Pty Ltd converted to a public company on 7 February 2014.

In the directors' opinion:

- (a) the non-statutory interim financial statements and notes set out on pages 2 to 12 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with applicable Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-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.

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



Mr Keith John
Director
Perth
14 February 2014



Independent auditor's review report to the members of Pioneer Credit Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, being a special purpose financial report, of Pioneer Credit Limited, which comprises the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Pioneer Credit Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the accounting policies as described in Note 1 to the financial statements and have determined that the accounting policies in Note 1, which form part of the financial report, are appropriate to meet the needs of the members. The directors' are also responsible for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that 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 Australian Auditing Standard on Review Engagements *ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner who is not the Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the accounting policies as described in Note 1 to the financial report. ASRE 2400 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

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Independent auditor's review report to the members of Pioneer Credit Limited (cont'd)

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Pioneer Credit Limited does not present fairly, in all material respects, the financial position of the consolidated entity as at 31 December 2013, and of its financial performance and its cash flows for the half-year period ended on that date, in accordance with the accounting policies described in Note 1 to the financial report.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The half-year financial report has been prepared to assist Pioneer Credit Limited to meet the requirements of preparing for an initial public offering ("IPO") on the Australian Stock Exchange ("ASX"). As a result, the half-year financial report may not be suitable for another purpose. Our report is intended solely for the members of Pioneer Credit Limited.

A handwritten signature in black ink, appearing to be 'W P R Meston', written over a horizontal line.

William P R Meston
Authorised Representative
PricewaterhouseCoopers Securities Ltd

Perth
14 February 2014