



Improving
on a solid
foundation



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Collection House Limited (ASX: CLH) is Australia's leading end-to-end receivables management company. We provide solutions to organisations and individuals that span the entire credit management lifecycle and beyond.

We enjoy strong business relationships with major Australian and international banks, financial institutions, large corporations, local Councils, public utilities, SMEs, and Government agencies.

With more than 800 staff in offices across Brisbane, Sydney, Victoria, Adelaide, New Zealand and the Philippines, the Collection House Group offers stakeholders a range of professional, ethical and effective products and services.

Our ongoing success is a result of the breadth of our service offering, our deeply ingrained approach to ethical debt recovery, and our commitment to technology to continually evolve our service and capabilities.

Our Brands

Founded in 1994 and listed on the Australian Securities Exchange in 2000, the Group is made up of a number of brands offering a range of professional, ethical and effective products and services:



Debt collection and receivables management for third parties



Debt purchasing and recovery



Legal services including insolvency administration



Tailored debt collection services, specialising in Local Government



Nationally recognised training provider in financial services and leadership



Customer service outsourcing for third parties



Licensed specialist finance broker for the provision of credit



Provision of financial hardship services for third parties

Chairman's Report



“One of the key strengths of the Company is our ability to see around corners to identify the emerging trends in our industry”

Leigh Berkley
Chairman

Collection House took decisive action as part of its ongoing transformation programme in FY18, investing in new people and technology, and focusing on employee productivity. These actions have been designed to reposition the Company for the future and to deliver superior returns for our shareholders.

The business made good progress in its financial performance, investing more than \$80 million in purchased debt ledgers, and posting a 50% increase in net profit for the year as we continued to focus on building the right team and FinTech platform for the future.

The business is now well positioned to capitalise on the opportunities the Board and management team have identified, and our performance in FY18 has provided confidence in achieving future growth in FY19 and beyond.

Industry first mover advantage

One of the key strengths of the Company is our ability to see around corners to identify the emerging trends in our industry, which has enabled us to gain first mover advantage in a number of exciting areas:

Comprehensive Credit Reporting (CCR): We were first in our industry to obtain CCR information within the Lion Finance Segment. CCR gives us access to a more complete picture of the customer's credit profile, so we can work with them to improve their credit profile. I have promoted the use of CCR in other geographies, and am excited that we now have this opportunity in Australia.

AASB9: Collection House was first to work with some of the Australian Banks to consider the consequences of AASB9.

The strategic steps we have taken to leverage this opportunity have enabled us to achieve significant Purchased Debt Ledger (PDL) growth during the year, and we are ready to accommodate additional volumes in FY19.

Portfolio Enhancement Programme (PEP): We further activated PEP this year by means of a first transaction with Balbec Capital LP (Balbec) and other smaller deals. PEP allows us to free up capital on older PDL purchases and buy new, higher yielding PDLs with the proceeds. This efficient use of capital will continue in FY19.

Portal: We also launched our Interactive Debt Collection Portal this year. This highly user friendly Portal rewards interaction and allows our customers to engage with us online 24/7. The Portal is already generating significant cash collections each month at a reduced cost, and is now being used in conjunction with our C5 software by some of our major clients. This is another area for growth in FY19 as the Portal matures.

ThinkMe: Our lending business took an exciting step forward in FY18, with our wholly-owned ThinkMe Finance obtaining from ASIC a full Australian Credit Licence enabling it to provide consumer loans. ThinkMe was already a licenced finance broker and we will now be able to provide consumers with our own ethical tailored loans consumers with our own ethical tailored loans. We see this as a growing and evolving part of our business. We are proud to be able to offer our customers this new service as it aligns with our values of assisting customers regain control of their finances.

Enhanced analytics, technology and the right people

A key priority for Collection House over the past 12 months has been our investment in technology. Some of you may be surprised with the Company's ongoing transformation into a fully-fledged FinTech company, and today the reality is we are very much a data analytics-driven business.

As part of our focus on data analytics we have moved to strengthen our analytics team, and in July 2017 we appointed a highly experienced Chief Data Scientist, Anand Adusumilli, who brings more than 15 years' experience in data science and predictive analytics within the PDL sector.

A high level of confidence in our analytics has enabled us to be a more aggressive acquirer of PDLs, and in the past 12 months the Company has purchased 39% more PDLs than in the prior year. We have also seen impressive productivity gains of 42% in collections per staff hour.

With technology adoption, improved data analytics and improvements in efficiencies, we expect to generate higher returns from our PDL acquisitions in the coming 12 months.

New board appointments

While the past 12 months have demonstrated how much can be achieved by a small Board, working closely with a skilled and experienced management team, we have been searching for the right candidates to strengthen the Board for the future.

Chairman's Report (continued)

Following a rigorous recruitment process, I was delighted to recently announce that Sandra Birkenleigh and Catherine McDowell have been appointed as Non-Executive Directors to the Board. They bring a wealth of experience from the accountancy, banking, financial services and investment industries.

Sandra has extensive experience in financial services, particularly in the areas of risk management, corporate governance and compliance. She is the former Global Lead for Governance Risk and Compliance at PricewaterhouseCoopers (PwC) and is currently a Non-Executive Director of a number of ASX companies where she is Chair of the Board Audit Committee. Sandra is therefore perfectly placed to chair the Collection House Audit and Risk Committee.

Catherine also has broad experience in the banking, financial services and investment industries, in both senior executive and advisory roles, and will chair the reconstituted Remuneration and Nominations Committee. Her international banking experience includes her role with Barclays International, where as Managing Director she led a substantial international wealth business. In New Zealand, Catherine was the Managing Director at ANZ and The National Bank Private Banking and Wealth business (New Zealand) and was responsible for integrating these two businesses and creating a significant wealth business.

We are encouraged by the commitment of both Sandra and Catherine to the company's corporate strategy, which is delivering innovation and sustainable results, and therefore provides a level of certainty to our valued shareholders. The Board welcomes Sandra and Catherine and we look forward to their contribution.

Other board news

I have been privileged to be Chairman of Collection House since November last year, and it's been such a positive experience that I've now decided to move from the UK to Australia on a permanent basis.

I have a home here and I am already spending around one third of my time in Australia. With all the exciting plans ahead for Collection House, I felt the time was right to make the move permanent. It will be a good opportunity to work even more closely with the new Board and our very talented management team, who are doing a really great job.



In addition, following the year end, the Board was delighted to advise the market that our CEO and Managing Director, Anthony Rivas, has confirmed he wishes to stay with the company for longer than his three-year term.

Anthony has also offered to forgo two million of his three million entitlements to performance rights due next year, currently valued at \$2.6 million, as part of his commitment to shareholders and the Company over the longer term.

The Board has welcomed Anthony's commitment, and his proposal is a central part of a remuneration review we have commissioned to ensure our management team and Board are appropriately rewarded for success, while providing excellent value to shareholders.

Outlook

Our outlook for FY19 remains positive. Our team and infrastructure to facilitate our future growth are now in place, and the results for the second half of FY18 give us a high level of confidence that further growth will be achieved in the year ahead.

It is our intention to remain early adopters of technology, and to be innovative in our utilisation of data and capital. In FY19 we expect to further improve the business, enhance customer outcomes and increase shareholder value.

On behalf of the Board, I would like to thank our shareholders, clients and customers for their ongoing support during FY18. I would also like to thank my fellow Board members, senior management team and all our employees for their hard work and dedication over the past twelve months. I am proud of what we've achieved in FY18 - we have shown what we can achieve by working closely as an experienced team, and I look forward to continuing our work together as we strive to deliver enhanced shareholder value in FY19.

Leigh Berkley
Chairman

Managing Director and Chief Executive Officer's Report



“Collection House’s reputation as an insight leader continued to serve us well during the past year.”

Anthony Rivas
Managing Director & CEO

I am delighted to present Collection House’s results for the 2018 financial year. We have produced a solid performance across the business as the improvements we have made as part of our transformation programme gathered momentum during the year.

Throughout we have remained steadfast in our commitment to delivering enhanced shareholder value, through our investment in our technology and our people.

The momentum we have created was evidenced by a particularly pleasing second half performance, which gives us confidence that further growth will be achieved in the year ahead.

The FY18 financial results showed continued progress, demonstrated by the growth in our Net Profit After Tax (NPAT) which increased 50% to \$26.1 million which included the profit on our first Balbec transaction as part of our Portfolio Enhancement Programme (PEP).

Collection House’s reputation as an insight leader continued to serve us well during the past year.

As the first Company in our industry to share with the banks how the new financial instruments standard AASB9 would become a major factor in debt distributed in the Australian

market we have gained a first mover advantage, and this has contributed significantly to the 39% increase in Purchased Debt Ledgers (PDLs) over the previous year.

As a first mover in our industry in relation to Comprehensive Credit Reporting (CCR) information, we will be reporting on-time payments for consumers previously considered not creditworthy, which will help them rehabilitate their credit record more rapidly. In this way, we are fostering deeper and lasting relationships with our customers and building a stronger business for our shareholders.

This approach aligns strongly with our values and we are proud of our achievement to be voted second place out of 13 similar companies in the Financial Counselling Australia’s annual, Rank the Bank survey. This survey, which included our industry for the first time in 2017, rated how well our industry dealt with customers in financial hardship.

FY18 in review

Purchased Debt Ledger segment

The Purchased Debt Ledger segment performed well during the year.

A key factor contributing to the success of the segment during FY18 was the Balbec transaction, which has significantly enhanced our ability to recycle capital and invest in strategic portfolios during a period of healthy supply, particularly with the impact of AASB9.

Our approach to PDL purchasing, enhanced by superior analytics, saw us acquire \$81.3 million worth of PDLs during the year.

In FY18, the Company turned around the previous trend in payment arrangements, reporting \$335 million face value of active arrangements, up from \$317 million at the end of FY17. We expect this improvement to continue.

Another pleasing aspect of our FY18 performance was the contribution of our Interactive Debt Collection Portal, which reached \$8 million in annualised cash collections just six months after launch, and is now generating approximately \$700,000 in cash collections per month. In recent months, cash collections have risen as high as \$850,000.

We are continuing to enhance our Portal strategies as customers have displayed a willingness to leverage self-selected, analytics driven payment plans.

Collection House has serviced more than 500,000 consumers, representing a significant proportion of the adult population. With our ThinkMe subsidiary obtaining its credit licence during the year we will now be able to offer innovative loan products to consumers, and in the future other services which are currently in development. ThinkMe has already developed a digital portal for applications and has a robust approval process in place.

Collection Services segment

We continue to broaden the services we offer and our customer relationships through extending our Collection Services platform.

Our ongoing commitments to a rigorous compliance regime, and to building strong relationships with our clients and customers, is contributing to our success. We have expanded our relationships with the “big four banks” and continue to build on our relationships with our key partners through training initiatives and regulatory refreshers.

Managing Director and Chief Executive Officer's Report (continued)



We continue to have success winning new clients for our C5 software product and in FY18, a major regional bank and an ASX-listed financial services company became users of our software. Following the year end we have also signed a major insurance company as a new client for our C5 software.

Other key areas we are developing include Safe Horizons, a specialist business assisting consumers and businesses navigating financial hardship, Business Services both in Customer Care and Process Optimisation, and expanding our offshore presence in New Zealand and Manila.

Technology

Over the past two years, Collection House has rolled out leading-edge technology which has helped us achieve productivity gains, deepen our engagement with our customers and provide training opportunities within our team. Our technology platform has also enabled us to expand our reach into new markets.

As a direct result of these developments we have seen the average collection rate per staff hour increase a further 42% in FY18, on top of an improvement captured in FY17.

FY19 and beyond

In FY18, Collection House built the foundations to position the Company for success in FY19 and beyond.

Our Board and management team is focused on continuing to build on the momentum of the current year to deliver performance

improvement across both segments of our operations. We will also further develop new business opportunities as regulatory change and market dynamics drive a greater demand for our innovative solutions and services.

Our current priorities include:

- Investing in FinTech tools to drive productivity and collections effectiveness, such as gamification and call monitoring to text
- Further developing the IDCP Customer Portal and marketing it and our C5 software product to current and new clients to create new revenue streams
- Fully implementing predictive analytics into the business
- Investing in regulatory technology to navigate the changing finance landscape and drive best practice in compliance and customer advocacy
- Continuing to refine the capital management strategy and strengthening ROE.

Much of the infrastructure to facilitate our future growth is in place, including superior analytics to more accurately assess and bid for PDL books and the right people in place with better systems to support them.

We have increased our access to capital to fund our purchasing and we now manage accounts for all major banks. This means the outlook for PDL purchasing remains attractive, with the expectation that we will meet or beat our FY18 performance.

Overall we have a positive outlook for both segments of our business.

In conclusion

I would like to offer my personal thanks to all of the people who have a stake in Collection House's continued success – our skilled teams, our loyal clients, our customers and of course, our shareholders.

Many thanks also to the Board of Directors for their wise counsel and collaboration.

Chairman Leigh Berkley's 30 years' of industry and regulatory experience in our sector has proved invaluable over the past 12 months. In particular, Leigh has played a pivotal role, working closely with me and the management team on the Portfolio Enhancement Programme, scrutinising our new pricing and valuation models, and numerous operational ideas to improve our performance as a Company.

I would also like to thank the Executive Leadership Team for their insight, hard work and dedication over the year.

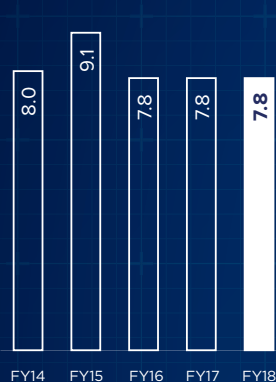
I am encouraged by our progress and solid results in 2018, as we continue building on the strong foundations that are in place, and I look forward to updating you on our progress throughout 2019.

Anthony Rivas
Managing Director & CEO

FY18 Financial Results

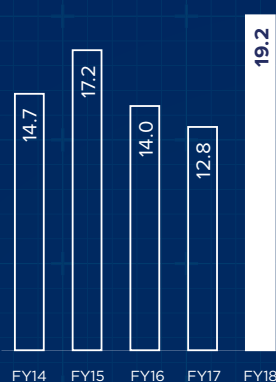
7.8c

Dividend
Per Share
(cents)



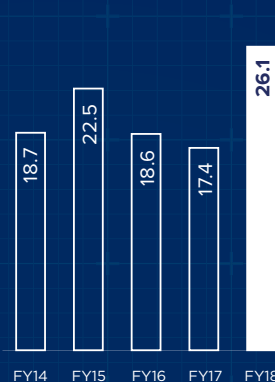
19.2c

Earnings
Per Share
(cents)



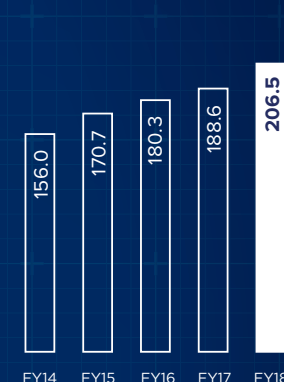
\$26.1m

Net Profit
After Tax
(\$million)



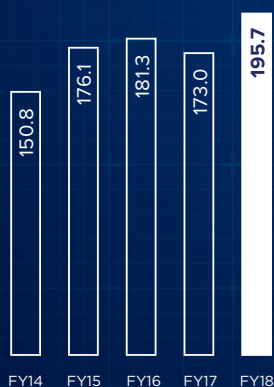
\$206.5m

Shareholder
Equity
(\$million)



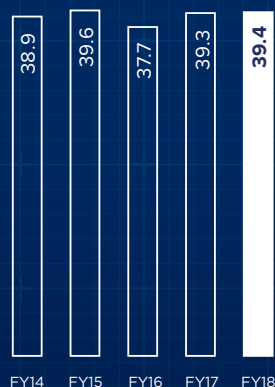
\$195.7m

PDL Cash Collections
& Commissions
(\$million)



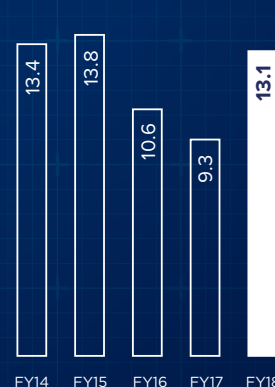
39.4%

Net Debt/
Net Debt + Equity
(%)



13.1%

Average Return
on Equity
(%)



Board of Directors

The Collection House Board of Directors is committed to strong corporate governance policies and practices. The Board's priority is to guide the business and the activities of the Company on behalf of all shareholders.

Board members have a diversity of skills, experience, and knowledge that enables them to lead the management of the company's affairs and to ensure there are appropriate controls in place to enable the Company to meet performance standards required by our shareholders, clients and other community stakeholders.



Mr Leigh Berkley
Chairman

Appointed: July 2016

Qualifications: BA (Hons) in Accounting and Business Finance, and Chartered Accountant (ICAEW)

Skills and experience: Mr Berkley has 30 years' experience in the collections and debt purchase industry, and is a Board member and immediate past President of the Credit Services Association (CSA) in the UK.

Mr Berkley is currently the Director of External Affairs and Development of Arrow Global Group Plc, one of the UK's largest consumer debt purchasers and providers of receivables management solutions. Prior to this, he was the CEO and main shareholder of Tessera Credit Group, a debt purchaser and collection agency, which he led for more than 16 years. Mr Berkley is presently responsible for Public Affairs at the CSA, and is also Vice President of the European trade body FENCA. Mr Berkley has also served on a number of government and industry advisory bodies.



Mr Michael Knox
Non-executive Director

Appointed: March 2017

Qualifications: BBus (Econ), MBA

Skills and experience: Mr Knox has extensive experience in financial markets and the financial services industry with a successful 30-year career at Morgans Financial Limited where he is currently Chief Economist and Director of Strategy. At Morgans, he has previously held senior roles including Chief Institutional Options Dealer and as a Director of Morgans Stockbroking.

Mr Knox has also served on several government advisory committees.



Mr Anthony Rivas
Managing Director & CEO

Appointed: November 2017

Skills and experience: Mr Rivas brings more than 25 years' experience in the collections and receivables industry across three continents. Mr Rivas was most recently Managing Director of Australian Receivables Limited (ARL), a wholly owned subsidiary of global customer service leaders Alorica.

Prior to this role, Mr Rivas led the Mexican operations of NCO/EGS as Vice President of Operations. In this role he was responsible for five facilities, including collection agents, visitor agents, field attorneys and legal services. Prior to joining NCO/EGS, Mr Rivas worked and consulted in India, Australia, the UK, and the USA.

 See pages 15 to 16 for further information on the Board of Directors.

Executive Management Team



Kristine May
CFO and Company Secretary

Appointed: July 2016

Kristine has been with the Group for more than 14 years. She has extensive financial and general management experience gained in her tenure with the Group, along with previous public company experience with Allied Mining & Processing Ltd as the Financial Controller and Company Secretary.

She is responsible for all aspects of the Group's financial management including reporting, planning and analysis, taxation, and investor relations.

Kristine holds a Bachelor of Business (Accounting, Banking & Finance) from QUT, is a Chartered Accountant, and is a member of the Australian Institute of Company Directors.



Anand Adusumilli
Chief Data Scientist

Appointed: July 2017

Anand joined the Group on 26 July 2017, bringing over 15 years' experience in the field of data science and predictive analytics for the financial services domain, primarily focussed on accounts receivables and debt collection.

Working with the US market leader in the debt collection industry for the last 12 years, he has vast experience in building pricing models, forecasting models, and optimisation models for operations in the financial services sector.

He has a proven track record in bridging strong symbiotic relationships between analytics and operations that are quintessential to be successful in our business.



Jonathon Idas
Chief Legal Officer

Appointed: September 2017

Jonathon joined Collection House Group on 6 September 2017, bringing over 15 years' experience as a solicitor in Sydney and London including most recently being the Chief Legal Officer for Australian Receivables Limited and Forbes Dowling Lawyers (FDL).

As Chief Legal Officer he successfully acquired Turnbull Bowles Lawyers, strengthening FDL's position and expanding legal services, client engagement and productivity.

As a solicitor in the United Kingdom his focus was helping clients navigate successfully through the global financial crisis, acting on large scale litigation and pursuing cross boarder insolvency matters.



Denica Saunders
Chief Operating Officer

Appointed: July 2015

Denica joined the group in July 2015, following an extensive career in the financial services industry and operational management. Denica has worked in senior roles leading large-scale change programs specialising in business transformation, contact centre optimisation for global organisations, industry, peak bodies, Local and Federal Government agencies.

Denica leads our operational teams across Australia, New Zealand and the Philippines. Drawing on over 15 years leadership experience at both the operational and executive level, Denica is instrumental in shaping and executing CLH's operational strategy, delivering best-in-class solutions for our clients and customers.

Corporate Governance

Collection House Limited's Board (the Board) and its Senior Executives are committed to achieving and demonstrating the highest standard of good corporate governance practices, and fostering a culture that values ethical behaviour and integrity.

The Board keeps the governance system under regular review to ensure that it reflects changes in law and keeps pace with best practice developments in corporate governance.

Board Composition

As at 30 June 2018, the Board comprised three Directors (including the Chair), two of whom are Independent Non-Executive Directors.

On 1 July 2017, the Board comprised of four Directors (including the Chair), all of whom were Non-Executive Directors.

On 24 November 2017, Anthony Rivas was appointed as Managing Director and Chief Executive Officer of the Company.

During the reporting period, at the Annual General Meeting on 28 November 2017, both Kerry Daly (Chair) and Philip Hennessy were not returned as Directors. Further on 29 November 2017, the Company appointed Leigh Berkley as Chair of the Company.

The Board considers its current members to have an appropriate mix of skills that enable the Board to discharge its responsibilities, and deliver the Company's strategy and corporate objectives.

Board Committees

On 28 November 2017, two Committees, each with its own Charter, were disbanded, with the functions, powers and delegations of these Committees absorbed by the full Board.

- Audit and Risk Management Committee
- PDL Investment Committee

Communication with Shareholders

Collection House Limited uses a range of methods to communicate with shareholders, including written and electronic communications. Shareholders are able to make enquiries with the Group at any time through the Investor Enquiries page on the Group's website.

The Corporate Governance Statement is available online

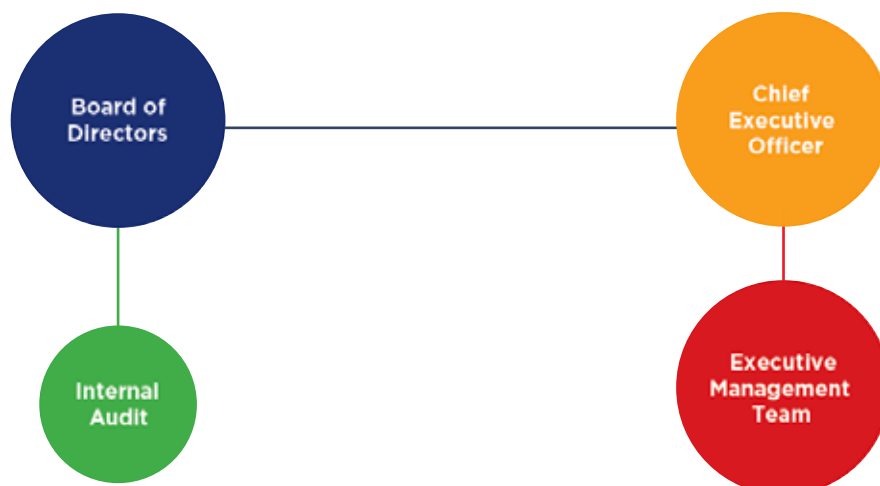
The Company's listing on the Australian Securities Exchange means it must comply with the Corporations Act 2001, the

ASX Listing Rules and other Australian laws. As part of this Compliance, Collection House Limited (the Group) is required to disclose how it has applied the recommendations contained in the ASX Corporate Governance Council's

Principles and Recommendations – 3rd Edition (the Principles and Recommendations) during the financial year ending

30 June 2018, explaining any departures from them. The Group has, unless otherwise stated, followed the Principles and Recommendations throughout the year. More information about Collection House Limited's Board and

Management, corporate governance policies, procedures and practices is in the Corporate Governance Statement available on the website at www.collectionhouse.com.au under the heading Investors – Corporate Governance.



Our Purpose Statement

**To attain excellence
delivering client and
consumer solutions
whilst enhancing
shareholder value**

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the Company or the Group) consisting of Collection House Limited and the entities it controlled for the financial year ended 30 June 2018.

Directors

The following persons were Directors of the Group during the whole of the financial period and up to the date of this report, unless stated otherwise:

- Kerry Daly (Resigned: 28 November 2017)
- Philip Hennessy (Resigned: 28 November 2017)
- Leigh Berkley (Appointed Chairman: 29 November 2017)
- Michael Knox
- Anthony Rivas (Appointed Managing Director: 24 November 2017)

See pages 15 to 16 for profile information on the Directors.

Principal activities

The Company has two reportable segments: Purchased Debt Ledgers (PDLs), and Collection Services.

The principal activities of the Group were the provision of debt collection services and the purchase of consumer debt. There were no significant changes in the nature of the activities of the Group during the year.

Directors' Report

FY2018 highlights

Key Information	30 June 2018 \$'000	30 June 2017 \$'000	Change %
Revenue	143,863	133,419	8%
Net Profit after tax for the year	26,123	17,386	50%
Earnings per share (EPS)	19.2	12.8	50%
Dividends for the year *	3.9	3.9	–

* Total dividends for the year of 3.9 cents (interim 3.9 paid 27 March 2018, final 3.9 cents to be paid 26 October 2018), fully franked.

Overview of Group operations and financial results

The directors of the Group report the following highlights for the 2018 financial year:

- 8 per cent increase in Revenue from \$133.4m to \$143.9m.
- 50 per cent increase in Net Profit After Tax (NPAT) from \$17.4m to \$26.1m
- 50 per cent increase in Earnings per share (EPS) from 12.8 to 19.2.

These results reflect strong performances, which resulted in substantial increase in NPAT of \$8.7m from Collection Services and Purchased Debt Ledgers (PDLs).

Key financial results – by segment – Audited (\$'000)

	Collection Services		Purchased Debt Ledgers (PDLs)		Consolidated	
	30 June 2018 \$ '000	30 June 2017 \$ '000	30 June 2018 \$ '000	30 June 2017 \$ '000	30 June 2018 \$ '000	30 June 2017 \$ '000
Revenue						
Sales	69,038	68,226			69,038	68,226
Interest and other income			75,002	65,044	75,002	65,044
Total segment revenue	69,038	68,226	75,002	65,004	144,040	133,270
Intersegment elimination					(177)	149
Consolidated revenue	69,038	68,226	75,002	65,004	143,863	133,419
Results						
Segment result	12,564	12,895	36,695	26,723	49,259	39,618
Interest expense and borrowing costs					(5,778)	(5,362)
Unallocated revenue less unallocated expenses					(5,887)	(8,505)
Profit before tax					37,594	25,751
Taxation					(11,471)	(8,365)
NPAT					26,123	17,386

Directors' Report

Collection Services Segment

Collection Services (third party servicing) revenue increased year on year by 2 percent. The segment result of \$12.6 million decreased 3 percent from the previous year result of \$12.9 million.

Growth was achieved in FY18 across this sector through:

- Continued efficiency gains leveraging our industry leading Call Centre Technology and our digital omni-channel strategies
- Client recognised collections performance in our Business Services Division earning additional market share and contract extensions
- White labelled versions of our CLH Interactive Debt Portal customised for each Client delivering successful results
- Sales initiatives into new markets in Australia, New Zealand and The Philippines.

The ThinkMe Finance and Safe Horizons (financial hardship services) business have been reclassified from Collection Services to the Purchase Debt Ledger segment during the period as most business for these divisions is originated from Lion Finance.

PDL Segment

PDL collections were \$126.5 million (30 June 2017: \$104.4 million.) PDL acquisitions were \$81.3 million (30 June 2017: \$58.3 million). The segment result for the year was \$36.7 million (30 June 2017: \$26.7 million). The improved operational performance signified improved execution in agent performance and a Portfolio Enhancement Programme (PEP) which provided a new source of capital that was immediately reinvested at higher returns.

The growth of the Arrangement Bank and further segment cost reductions led by the implementation of the CLH Interactive Debt Portal are indicative of the Group's focus to extract maximum value from new and existing ledger purchases.

Once again 46 percent of recoveries were derived from PDLs exceeding a 3 year purchase vintage (30 June 2017: 46%). This outcome is a key factor in determining the value attributed to PDLs.

The PDLs now comprise of ledgers acquired from the four Major Banks, other Financial Institutions, Auto Finance, and selected Telco and Utility purchases.

Review of financial position

The Group's net assets increased 9.5 percent to \$206.6 million (30 June 2017: \$188.6 million), reflecting the increased PDL purchases during the year. Total net borrowings were \$134.5 million (30 June 2017: \$122.0 million). Gearing was 39.9% (30 June 2017: 39.3%).

The Group's net cash outflow from investing activities was \$82.7 million (30 June 2017: \$60.1 million) which includes \$81.3 million PDL purchases (30 June 2017: \$58.3 million).

Business strategies and prospects for future financial years

Our core business strategy is to grow the business by:

- Continuing to invest in our existing business
- Continuing to expand into new business segments within Collection Services
- Creating and building complementary business model adjacencies.

Key Risks

Our key risks are:

- Overpaying on PDL investments
- Failing to collect PDLs in accordance with our pricing models
- Changes to regulations governing our activities
- Breaching of regulatory compliance obligations
- Failure to retain existing and acquire new agency clients.

The Audit and Risk Management Committee provides board oversight to the management of risk mitigation strategies that are implemented for the Group.

Directors' Report

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the year 2017	Cents per share	Total amount \$'000	Date of payment
Final 2017 ordinary	3.9	5,300	27 October 2017
Interim 2018 ordinary	3.9	5,300	27 March 2018

After the balance date the following dividends were proposed by the Directors. The dividends have not been provided for, and there are no income tax consequences:

Declared after end of year	Cents per share	Total amount \$'000	Date of payment
Final 2018 ordinary	3.9	5,349	26 October 2018

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

1. Dividend

The Directors have recommended the payment of a final fully franked ordinary dividend of **3.9 cents** per fully paid share to be paid on 26 October 2018 out of retained profits and a positive net asset balance as at 30 June 2018.

Other than the matters discussed above, no matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

Environmental regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Directors' Report

Information on directors

Leigh Berkley

Independent, Chairman

Experience

Mr Berkley has more than 25 years' experience in the collections and debt purchase industry, and is a Board member and immediate past President of the Credit Services Association (CSA) in the UK. He is a regular visitor to Australia, and assisted the Australian Collectors & Debt Buyers Association (ACDBA) develop the 'Code of Practice'.

Mr Berkley is currently the Director of External Affairs and Development of Arrow Global Group Plc, one of the UK's largest consumer debt purchasers and providers of receivables management solutions. Prior to this, he was the CEO and main shareholder of Tessera Credit Group, a debt purchaser and collection agency, which he led for over 16 years before successfully negotiating a sale of its assets to Arrow Global in December 2014.

Mr Berkley is responsible for Public Affairs at the Credit Services Association (CSA), and is also Vice President of the European trade body FENCA where he is leading the development of a Code of Conduct for GDPR for the Collections industry across Europe. He sits on a number of Government and industry advisory bodies, and regularly presents at conferences and trade body forums around the world. Leigh is also the 2019 President of the International Collectors Group and a Trustee of the FairLife Charity and a Director of the Money Advice Liaison Group in the UK.

Mr Berkley was appointed to the Board of Collection House Limited on 1 July 2016.

Mr Berkley was appointed Chairman of Collection House Limited on 29 November 2017.

Special responsibilities

Member of the Remuneration and Nomination Committee from 27 July 2016 to 23 December 2016.

Chair of the PDL Investment Committee from 1 November 2016.

Interest in shares

3,700 ordinary shares in CLH.

Michael Knox

Independent, Non-executive Director

Experience

Mr Knox was an Australian Trade Commissioner serving in Saudi Arabia and Indonesia. He joined Morgans (now Morgans Financial Limited) in Sydney in 1988. He was Chief Institutional Options Dealer until moving to Brisbane in 1990 as Economist and Strategist. He joined the Board of Morgan Stockbroking in 1996. He became Director of Strategy and Chief Economist in 1998. Michael remained on the Board of Morgans until 2012.

Michael has served on many Queensland Government advisory committees. He was Chairman of the Queensland Food Industry Strategy Committee in 1992, a Member of the Consultative Committee of the Ipswich Development Board in 1993, a Member of the Queensland Tourism Strategy Committee in 1994 and a Member of the Ministerial Advisory Committee on Economic Development in 1997. From 2003 to 2012, he was Chairman of the Advisory Committee of School of Economics and Finance at the Queensland University of Technology. He has been a Governor of the American Chamber of Commerce from 1997 to 2007. In 2008, Michael joined the Board of The City of Brisbane Investment Corporation Pty Ltd. Michael remained on the Board until 2016. Michael was the President of the Economic Society of Australia (Qld) Inc from 2009 to 2013.

Mr Knox was appointed to the Board of Collection House Limited on 24 March 2017.

Special responsibilities

Nil

Interest in shares

No ordinary shares in CLH.

Directors' Report

Anthony Rivas

Managing Director

Experience

Anthony Rivas has over 25 years' experience in the area of Credit and Collections, and extensive international experience in three continents.

Anthony has served as Managing Director of Australian Receivables Limited until July 2016, after joining the company in 2013.

With an initial mandate to optimise costs, Anthony successfully led the team to achieve EBITDA targets each year under his leadership and improved staff turnover rates.

Anthony joined NCO/EGS in 2011, and led the Mexican operations for the company as Vice President of Operations. Here he was responsible for five facilities across Mexico, including collection agents, visitor agents, field attorneys and legal services. During his tenure, Anthony and his team nearly doubled "per collector" recoveries, whilst reducing operating waste and achieving double digit EBITDA.

Prior to joining NCO/EGS, Anthony worked and consulted in India, Australia, UK, and the USA. His accomplishments included:

Assisting companies to bring purchased debt portfolios to India for the first time

Vice President of Operations/Training for Global Vantage (an OSI company) in the USA and India

VP Operations at a 1000+ FTE facility, and surpassing US benchmarks for various clients in Bankcard and Telecommunications

Anthony has managed debt portfolios for a major international debt purchaser and successfully participated in the sale and transition of the portfolios to International investors.

His technical developments include building automated skip waterfall systems, leveraging fetch technology to the internet with no agent involvement; system upgrades to enhance collector and reporting efficiency, enabling real time reporting; and helping lead Performance Management System training for OSI's markets in the USA.

Mr Rivas was appointed Managing Director on 24 November 2017.

Special responsibilities

Nil

Interest in shares

3,690 ordinary shares in CLH.

71,409 FY17 indeterminate rights in CLH

77,584 FY18 indeterminate rights in CLH

Company Secretary

The Company Secretary is Kristine May.

Ms May has been with the Group for more than 15 years providing extensive financial and general management across the Group. Ms May undertakes the combined roles of Chief Financial Officer and Company Secretary for the Group. Prior to 2001, Ms May held the position of Financial Controller and Company Secretary with Allied Mining & Processing Ltd.

Directors' Report

Meetings of Directors

The number of meetings of the Group's Board of Directors and of each board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	Meetings of committees					
	Directors		Audit and Risk Management		PDL Investment	
2018	Attended	Held	Attended	Held	Attended	Held
Kerry Daly (Resigned: 28 November 2017)	5	5	5	5	2	2
Philip Hennessy (Resigned: 28 November 2017)	5	5	5	5	2	2
Leigh Berkley (Appointed Chairman on 29 November 2017)	9	10	10	10	7	7
Michael Knox	10	10	10	10	6	7
Anthony Rivas (Appointed Managing Director on 24 November 2017)	5	5	5	5	5	5

Remuneration Report – AUDITED

This Remuneration Report outlines the overall remuneration strategy, framework and practices adopted by the Group for FY18 for Non-Executive Directors (NEDs), the Chief Executive Officer and other Key Management Personnel (KMP). It has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), as amended (the Act) and its regulations. The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the Act. The Remuneration Report contains the following sections:

- A Directors and other key management personnel disclosed in this report
- B Remuneration governance
- C Executive remuneration policy and framework
- D Relationship between remuneration and the Group's performance
- E Non-executive Director remuneration policy
- F Details of remuneration of Directors and key management personnel
- G Service agreements
- H Share-based compensation
- I Equity instruments held by key management personnel
- J Additional information

Director and Executive Remuneration

At our Annual General Meeting for FY17 the resolution to adopt the Remuneration Report was not passed by shareholders. The Board has listened to the concerns raised by shareholders which contributed to this *first strike* and has made changes to ensure alignment with shareholders.

In FY18 the Group has taken the following measures:

- (a) Internally reviewed the overall remuneration strategy, framework and practices adopted by the Group;
- (b) Revised Short Term Incentives (STI), targets and weighting with particular focus on financial metrics of Earnings Per Share (EPS) together with compliance, innovation and improvements to corporate culture;
- (c) Engaged Heidrick & Struggles to undertake a recruitment process to source high calibre non-executive directors; and
- (d) Continued to apply rigorous controls in relation to capitalising costs relating to IT development and software.

Additionally, the Group has sought external advice to independently review Directors and Executives remuneration. The Board will consider any recommendations as part of its ongoing review process.

Directors' Report

A Directors and other key management personnel disclosed in this report

The key management personnel include those who have the authority and responsibility, directly or indirectly, to plan, direct and control the major activities of the Group.

The Group's Directors and key management personnel for FY18

Board of Directors

Kerry Daly	Chair (Non-Executive) (resigned 28 November 2017)
Philip Hennessy	Director (Non-Executive) (resigned 28 November 2017)
Leigh Berkley	Director (Chairman) (appointed 29 November 2017)
Michael Knox	Director (Non-Executive)
Anthony Rivas	Managing Director (appointed 24 November 2017)

Executive Management Team (EMT)

Anthony Rivas	Chief Executive Officer (CEO)
Kristine May	Chief Financial Officer (CFO)
	Company Secretary
Marcus Barron	Chief Information Officer (CIO) (resigned 3 July 2017)
	Chief Operating Officer (COO) (resigned 3 July 2017)
Anand Adusumilli	Chief Data Scientist (appointed 26 July 2017)
Jonathan Idas	Chief Legal Officer (appointed 6 September 2017)

B Remuneration governance

Overall remuneration strategy, framework and practices adopted by the Group are governed by the Board. These functions include consideration of the following:

- How the remuneration policies are applied to members of the EMT
- The basis of short and long-term performance-based incentive payments for members of the EMT
- The appropriate fees for NEDs.

Fundamental to all arrangements is that all KMP must contribute to the achievement of short and long-term objectives, enhance shareholder value, avoid unnecessary or excessive risk taking and discourage behaviour that is contrary to the Group's values.

Details of the short and long-term incentive schemes are set out below in the 'Executive Remuneration Policy and Framework' section of the Remuneration Report.

The objectives of the Group's remuneration policies are to ensure remuneration packages for KMP reflect their duties, responsibilities and level of performance – as well as to ensure all KMP are motivated to pursue the long-term growth and success of the Group.

In determining the remuneration of all KMP, the Board aims to ensure that the remuneration policies and framework:

- Are fair and competitive and align with the long-term interests of the Group
- Incentivise all KMP to pursue the short and long-term growth and success of the Group within an appropriate risk control framework
- Are competitive and reasonable, enabling the Group to attract and retain key talent, knowledge and experience
- Are aligned to the Group's strategic and business objectives and the creation of shareholder value
- Have a transparent reward structure with a risk proposition that is linked to the achievement of pre-determined performance targets.

Use of external consultants

In performing its role, the Committee may directly commission and receive information, advice and recommendations from independent, external advisers. This is done to ensure the Group's remuneration packages are appropriate, reflect industry standards and will help achieve the objectives of the Group's remuneration strategy. No remuneration recommendations were received by any external remuneration consultant during the period.

Directors' Report

Securities Trading Policy

The trading of shares issued to eligible employees under any of the Group's employee equity plans was subject to, and conditional upon, compliance with the Group's Securities Trading Policy. Members of the EMT are prohibited from entering into any hedging arrangements over unvested performance rights under the Group's Performance Rights Plan (PRP). The Group would consider a breach of this policy as misconduct, which may lead to disciplinary action and potentially dismissal.

C Executive remuneration policy and framework

The Group's executive remuneration strategy is designed to attract, motivate and retain high performing individuals and align the interests of executives with shareholders.

The Board reviews the remuneration packages for members of the EMT annually by reference to individual performance against key individual objectives, the Group's consolidated results and market data. The performance review of the CEO is undertaken by the Chair of the Board who then makes a recommendation to the Board. The performance review of the other members of the EMT is undertaken by the CEO and approved by the Board.

The Group aims to reward members of the EMT with a level of remuneration commensurate with their responsibilities and position within the Group, and their ability to influence shareholder value creation. The remuneration framework links rewards with the strategic objectives and performance of the Group.

The EMT pay and reward framework has three components:

- Total fixed remuneration (TFR) including superannuation and benefits
- Short-term incentives (STIs), paid in cash or shares
- Long-term incentives (LTIs) through participation in the Performance Rights Plan (PRP), which has been approved by the Board.

The combination of these components amount to the total remuneration package or total employment cost for members of the EMT.

The following summarises the target remuneration mix of the EMT:

	TFR	At Risk	
		STI	LTI
CEO	10%	8%	82%
Other EMT	67%	17%	16%

Total fixed remuneration

Structured as a total employment cost package, the total fixed remuneration (TFR) may be delivered as a combination of cash and prescribed non-financial benefits at the discretion of the EMT member. Members of the EMT are offered a competitive TFR that comprises the cash salary, superannuation and non-monetary benefits. TFR for EMT members is reviewed annually to ensure the pay is in line with the role, experience and performance and remains competitive with the market. Group and individual performance are considered during the annual remuneration review. TFR is usually fixed for a 12-month period with any changes effective from 1 September each financial year. An EMT member's remuneration is also reviewed upon any change of duties.

Retirement benefits for EMT

There are no additional retirement benefits made available to members of the EMT, other than those required by statute or by law and under the shareholder approved performance rights plans.

Short-term incentives (STIs)

To ensure that remuneration for members of the EMT are aligned to the Group's performance, a portion of their remuneration, in line with their ability to influence results, is performance based and, therefore, 'at risk'.

EMT members have the opportunity to earn an annual STI if pre-defined targets are achieved. The CEO had a target STI opportunity of 75 percent of TFR, with 60 percent of the determined amount to be paid in cash and 40 percent deferred payment to be provided in shares at the end of the contract period. Other EMT personnel each have a cash-based STI opportunity of 30 percent of TFR.

STIs for the EMT in FY18 were based on scorecard measures and weightings. The CEO key performance objective targets were set by the Board at the beginning of the financial year and aligned to the Group's strategic and business objectives, as outlined below.

The STIs for other members of the EMT are recommended by the CEO to the Board based on the CEO's financial and non-financial target performance objectives.

Directors' Report

There is a high degree of alignment between the Company strategy and the EMT's STI performance objective targets. The relative weights of financial versus non-financial performance targets for each executive are detailed below and are based on their position and influence on the financial results. The weightings strive to provide a balance between the Company's overall financial goals and the ability of the individual executives to influence these and other strategic outcomes.

Position	Financial Performance Objectives	Non-Financial Performance Objectives
Chief Executive Officer	80%	20%
Chief Financial Officer/Company Secretary	80%	20%
Chief Data Scientist (appointed 26 July 2017)	80%	20%
Chief Legal Officer (appointed 6 September 2017)	80%	20%

The financial performance objectives are the same for all Senior Executives, providing a common objective for the EMT (weighting are different as highlighted above).

The non-financial EMTs have a high degree of variability between technology projects, people and culture, and processes that reflect the individual roles, and include measures such as achieving strategic outcomes, developing people and culture, growth, business development, differentiation, innovation, digital development and other key initiatives during the financial year.

Each executive has a high degree of clarity on their individual performance objectives and priorities, as established by their scorecard. They also have an understanding of the inter-relationship of their individual performance objectives to the objectives of the other members of the EMT.

CEO STI targets for FY18

Payment of the STI is discretionary and subject to the requirement to achieve a minimum of 5% growth in EPS in a financial year, as well as the achievement of the individual personal objectives outlined below:

Performance category	Metrics	Weighting (%)
Financial	– Earnings per share (EPS)	80
Non-Financial	– Compliance	10
	– Innovative Solutions implemented	5
	– Improvement of Corporate Culture	5

A summary of the actual STI Financial outcomes achieved is included in Section D.

CEO STI targets for FY17

Payment of the STI is discretionary and subject to the requirement to achieve a minimum of 5% growth in EPS in a financial year, as well as the achievement of the individual personal objectives outlined below:

Performance category	Metrics	Weighting (%)
Financial	– Net profit after tax (NPAT)	20
	– Earnings per share (EPS)	40
Financial Support	– Growth of the ThinkMe business line	5
	– Introduction of a sales force	5
	– Growth in RTO income	5
	– Organic arrangement improvement	2.5
	– Establish system for mortgage referrals	2.5
Other	– Introduction of Interactive Intelligence technology	5
	– Migration on to C5 platform	10
	– Implementation of comprehensive marketing campaign	5

A summary of the actual STI Financial outcomes achieved is included in Section D.

Directors' Report

Cessation of employment

For resignation or termination for cause, any STI is forfeited, unless otherwise determined by the Board.

For any other reason, the Board may award STI on a pro-rata basis taking into account time and the current level of performance against performance hurdles.

Long-term incentives (LTIs)

LTIs are awarded to the Group's EMT by way of performance rights via the Performance Rights Plan (PRP). The LTI program has the objective of delivering long-term shareholder value by incentivising members of the EMT to achieve sustained financial performance over a three-year period (with no opportunity to retest).

Annual grants of performance rights are proposed to be made to the Group's EMT under the PRP. The number of performance rights granted is calculated based on the weighted average share price over the five trading days before the grant date.

Sections H and I provide details of performance rights granted, vested, exercised and lapsed during the year.

Performance rights were awarded to various eligible employees pursuant to the PRP, at a nil exercise price and subject to a three-year tenure hurdle. This is contingent on the achievement of certain financial performance hurdles, which are approved by the Board each financial period.

The performance rights will not vest unless the Group's financial performance meet these hurdles. The Board set these hurdles to ensure that the EMT were focused on the delivery of increased shareholder value through the achievement of the short and long-term goals of the Group. Participants in the PRP do not receive distributions or dividends on unvested LTI grants.

FY18 Performance Rights Awarded

For the FY18 performance rights the Board chose Earnings Per Share (EPS) as the key financial measurement, as EPS growth will ensure that long-term shareholder value is achieved. The hurdles and the proportion of performance rights that will vest as a percentage if the target is achieved, are outlined below:

Performance Hurdles – Compound EPS Growth	% of Pool
0% – 5.00%	Nil
5.01% – 7.50%	33.33%
7.51% – 10.00%	66.66%
More than 10.01%	100%

For the period 1 July 2017 to 30 June 2020, 341,071 unlisted performance rights over ordinary shares in the Company were granted during the current year under the PRP to the EMT and other eligible employees. The performance rights will vest (and therefore be capable of being exercised) depending on the Group achieving certain performance hurdles as at 30 June 2020 as highlighted above.

FY17 Performance Rights Awarded

In line with the terms of his contract, the CEO was granted 3,000,000 performance rights in FY17. Other EMT personnel were granted performance rights in FY17 representing 30 percent of TFR.

For the FY17 performance rights the Board chose Earnings Per Share (EPS) as the key financial measurement, as EPS growth will ensure that long-term shareholder value is achieved. The hurdles and the proportion of performance rights that will vest as a percentage if the target is achieved, are outlined below:

Performance Hurdles – Compound EPS Growth	% of Pool
0% – 5.00%	Nil
5.01% – 7.50%	33.33%
7.51% – 10.00%	66.66%
More than 10.01%	100%

For the period 1 July 2016 to 30 June 2019, 3,747,550 unlisted performance rights over ordinary shares in the Company were granted during the current year under the PRP to the EMT and other eligible employees. The performance rights will vest (and therefore be capable of being exercised) depending on the Group achieving certain performance hurdles as at 30 June 2019 as highlighted above.

A summary of the actual LTI Financial outcomes achieved is included in Section D.

Directors' Report

Cessation of employment

For 'uncontrollable events' (including death, serious injury and disability and forced early retirement, retrenchment or redundancy), any LTI that are capable of becoming exercisable if performance hurdles are met at the next test date will become vested performance rights. The Board, at its discretion, may determine the extent to which any other unvested performance rights, that have not lapsed, will become vested performance rights.

For any other reason, all unvested LTI awards will lapse immediately, unless otherwise determined by the Board.

Change of control

Where a proposal is publicly announced in relation to the Group which the Board reasonably believes may lead to a change in control event, all unvested LTI awards, that have not lapsed, will vest and become exercisable.

Clawback

The Group will reduce, cancel or clawback any performance-based remuneration in the event of serious misconduct or a material misstatement of the Group's financial statements.

Discretion

The Board has absolute discretion in relation to payments under both the STI and LTI schemes.

D Relationship between remuneration and the Group's performance

Group performance and its link to STI

Based on the achievements of the Group this year, the Board determined that the EMT had generally performed well against their financial and non-financial targets.

The Board considered that an overall STI level of 80% was appropriate, and will review the STI structure and key performance targets for FY19.

The table below shows the actual STI Financial outcomes achieved for FY18.

Performance category	Metrics	Maximum Potential (%)	Actual Achieved (%)
Financial	– Earnings per share (EPS)	80	60
Non-Financial	– Compliance	10	10
	– Innovative Solutions implemented	5	5
	– Improvement of Corporate Culture	5	5
Total		100	80

Group performance and its link to LTI

The overall level of reward for members of the EMT takes into account the performance of the Group over a number of years, with greater emphasis given to the current and previous year. Details of the relationship between the remuneration policy and Group's performance over the last five years is detailed below.

	2014	2015	2016	2017	2018
Net profit after tax (\$m)	\$18.7	\$22.5	\$18.6	\$17.4	\$26.1
Dividends declared (franked)	8.0 cents	9.1 cents	7.8 cents	7.8 cents	7.8 cents
Share price commenced	\$1.65	\$1.88	\$2.23	\$1.10	\$1.16
Share price ended	\$1.88	\$2.23	\$1.10	\$1.16	\$1.49
Basic EPS (including discontinued operations)	14.7 cents	17.2 cents	14.0 cents	12.8 cents	19.2 cents

There is no vesting of LTI awards for the year ended 30 June 2018 as all performance rights have lapsed.

Directors' Report

Details of remuneration: cash bonuses and performance rights

For each cash bonus and grant of performance rights included in the table on page 26 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 service and performance criteria, is set out below. Other than the deferred payment shares, no part of the STI is payable in future years. No performance rights will vest unless the vesting conditions are met, hence the minimum value of the performance rights yet to vest is nil. The maximum value of the performance rights yet to be expensed has been determined as the amount of the grant date fair value of the performance rights that are yet to be expensed.

	Cash bonus 2018		Deferred Payment Shares 2018*		Financial year granted	Performance rights					Maximum total value of performance rights yet to be expensed
	Awarded %	Forfeited %	Awarded %	Forfeited %		Vested %	Forfeited %	Lapsed %	Financial years in which performance rights may be issued (subject to certain qualifying hurdles)		
Anthony Rivas	80%	20%	80%	20%	2018	—	—	—	—	—	
	80%	20%	80%	20%	2017	—	—	—	2020	3,883,411	
Kristine May	80%	20%	—	—	2018	—	—	—	2021	77,443	
	80%	20%	—	—	2017	—	—	—	2020	92,420	
Marcus Barron (resigned 3 July 2017)	—	100%	—	—	2015	—	—	100%	2018	—	
					2016	—	—	100%	2019	—	
					2017	—	—	100%	2020	—	
Anand Adusumilli (appointed 26 July 2017)	80%	20%	—	—	2018	—	—	—	2021	27,047	
Jonathan Idas (appointed 6 September 2017)	80%	20%	—	—	2018	—	—	—	2021	27,375	

* Under the terms of the CEO's employment agreement, 40% of the FY18 STI is payable in shares at the end of the employment contract, and is contingent upon the CEO being employed by the Company at the end of the contract period.

Directors' Report

E Non-Executive Director remuneration policy

Non-Executive Director's (NEDs) fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. Non-Executive Directors do not receive share options or performance rights. The maximum aggregate fee pool and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external advisors when undertaking the annual review process.

The maximum annual aggregate Directors' fee pool limit is \$900,000 per annum and was approved by shareholders at the Group's AGM on 25 October 2013. The FY18 aggregate total Non-Executive Director fees distribution is \$406,944 (including superannuation). The Board will not seek any increase to the annual aggregate NED fee pool limit at the 2018 AGM.

Payments are allowed for additional responsibilities for the Chair of each Board Committee. Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors.

The table below summarises the NED fees for FY18 (exclusive of superannuation):

FEES	FY18	FY17
Base fees		
Chair	\$165,000*	\$165,000*
Other Non-Executive Directors	\$90,000	\$90,000
Additional fees		
Audit and Risk Management Committee Chair	\$15,000	\$15,000
Audit and Risk Management Committee Member	\$Nil	\$Nil
Remuneration and Nomination Committee Chair	\$Nil	\$15,000
Remuneration and Nomination Committee Member	\$Nil	\$Nil
PDL Investment Committee Chair	\$15,000	\$15,000
PDL Investment Committee Member	\$Nil	\$Nil

* The Chair's fee covers his entire engagement on the Board.

For further information in relation to Directors' remuneration, including fees paid in accordance with statutory rules and applicable accounting standards, refer to Section F below.

Note that the changes in the NED fee structure do not require an increase in the Directors' fee pool limit.

Retirement allowances for Directors

There are no retirement allowances paid to Non-Executive Directors.

Directors' Report

F Details of remuneration of Directors and key management personnel

Amounts of remuneration

Details of the remuneration of Directors and all other key management personnel (as defined in AASB 124 Related Party Disclosures) of the Group are set out below.

In Dollars	Short-term				Post-employment	Other long term	Share-based payments		Total	Proportion of remuneration performance related
	Salary and fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Annual and long service leave	Termination benefits	Rights		
Non-Executive Directors										
Kerry Daly Chair (resigned 28 November 2017)	2018	67,904	–	–	67,904	6,451	–	–	–	74,355
	2017	144,635	–	–	144,635	13,740	–	–	–	158,375
Philip Hennessy Non-Executive Director (resigned 28 November 2017)	2018	43,212	–	–	43,212	4,105	–	–	–	47,317
	2017	100,154	–	–	100,154	9,515	–	–	–	109,669
Leigh Berkley Chair (appointed Chair 29 November 2017)	2018	182,326	–	–	182,326	4,396	–	–	–	186,722
	2017	106,650	–	–	106,650	2,850	–	–	–	109,500
Michael Knox Non-Executive Director	2018	90,000	–	–	90,000	8,550				98,550
	2017	24,557	–	–	24,557	2,302	–	–	–	26,879

		Short-term				Post-employment	Other long term		Share-based payments				Proportion of remuneration performance related
In Dollars		Salary and fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Annual and long service leave	Termination benefits	Rights	Deferred Shares*	Total		
Executive Director and other Key Management Personnel													
Anthony Rivas Managing Director/ Chief Executive Officer	2018	433,418	173,400	32,126	638,944	38,788	31,284	–	431,490	115,600	1,256,106	57%	
	2017	421,731	159,600	51,536	632,867	40,064	22,237	–	431,490	106,400	1,233,058	57%	
Kristine May Chief Financial Officer/ Company Secretary	2018	234,556	63,000	4,549	302,105	22,283	13,844	–	56,214	–	394,446	30%	
	2017	158,276	62,000	2,938	223,214	15,036	5,876	–	8,542	–	252,668	28%	
Marcus Barron Chief Operating Officer (resigned 3 July 2017) Chief Information Officer (resigned 3 July 2017)	2018	–	–	–	–	–	–	–	–	–	–	–	
	2017	268,846	–	4,344	273,190	31,715	17,499	65,000	–	–	387,404	–	
Anand Adusumilli Chief Data Scientist (appointed 26 July 2017)	2018	248,124	49,000	–	297,124	23,572	1,445	–	1,066	–	323,207	15%	
Jonathan Idas Chief Legal Officer (appointed 6 September 2017)	2018	205,721	50,000	–	255,721	19,543	11,802	–	1,079	–	288,145	18%	

- For recently appointed EMT, the remuneration information provided in the table below relates to the period from the date of appointment as EMT to FY18, unless otherwise stated.

* Deferred share represent 40 percent of FY18 STI, payable to the CEO at the end of his contract term.

Directors' Report

G Service agreements

Remuneration and other terms of employment for the CEO and other key management personnel are also formalised in service agreements. Except for the CEO who has a six month notice period, all contracts with members of the EMT may be terminated early by either party with three months' notice. Collection House, at its full discretion, may make a payment in lieu of the notice period, either partially or in full. Major provisions of the agreements relating to remuneration are set out below.

Anthony Rivas CEO & Managing Director	Annual fixed remuneration	\$481,558 inclusive of superannuation and non-monetary benefits for FY18.
	Performance bonus	\$361,169 was the maximum STI opportunity in relation to FY18 (60% cash, 40% deferred payment in shares at the end of the contract period, provided the CEO remains employed by the Company at the end of the contract period).
	Performance rights	3,000,000 at risk performance rights were granted during FY17.
	Contract period	Three years, to 30 June 2019
Kristine May CFO & Company Secretary	Annual fixed remuneration	\$262,695 inclusive of superannuation and non-monetary benefits for FY18.
	Performance cash bonus	\$78,809 was the maximum STI opportunity in relation to FY18.
	Performance rights	62,286 at risk performance rights were granted during FY18 59,387 at risk performance rights were granted during FY17.
Marcus Barron CIO & COO (resigned 3 July 2017)	Annual fixed remuneration	\$289,071 inclusive of superannuation and non-monetary benefits for FY18.
	Performance rights	44,391 at risk performance rights were granted during FY15. 36,080 at risk performance rights were granted during FY16. 80,548 at risk performance rights were granted during FY17.
Anand Adusumilli Chief Data Scientist (appointed 26 July 2017)	Annual fixed remuneration	\$271,013 inclusive of superannuation and non-monetary benefits for FY18
	Performance cash bonus	\$61,750 was the maximum STI opportunity in relation to FY18.
	Performance right	17,559 at risk performance rights were granted during FY18.
Jonathan Idas Chief Legal Officer (appointed 6 September 2017)	Annual fixed remuneration	\$273,750 inclusive of superannuation and non-monetary benefits for FY18
	Performance cash bonus	\$62,500 was the maximum STI opportunity in relation to FY18.
	Performance right	17,772 at risk performance rights were granted during FY18.

Directors' Report

H Share-based compensation

Performance rights

Performance rights have been granted to certain eligible employees under the Collection House Performance Rights Plan (PRP).

Performance rights granted under the PRP respectively carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share of Collection House Limited.

Details of performance rights over ordinary shares in the Group provided as remuneration to members of the EMT are set out below.

Name	Number of performance rights granted/issued during the year		Number of performance rights vested/ issuable during the year	
	2018	2017	2018	2017
Anthony Rivas	–	3,000,000	–	–
Kristine May	62,286	59,387	–	–
Marcus Barron (resigned 3 July 2017)	–	80,548	–	–
Anand Adusumilli	17,599	–	–	–
Jonathan Idas	17,772	–	–	–

The assessed fair value at grant date of performance rights compensation granted to members of the EMT has been calculated using the five day volume weighted average price (VWAP) of one ordinary share over the five days preceding the grant. The expense is recognised over the vesting period. The expense for each relevant financial year will require an assessment at each reporting date of the probability that each performance hurdle will be achieved.

I Equity instruments held by key management personnel

Performance rights

Details of performance rights over ordinary shares in the Company provided as remuneration to each Director of Collection House Limited and other key management personnel of the Group, are set out below.

2018 Name	Balance at start of the year	Granted as compensation	Vested	Lapsed	Balance at end of the year	Vested and issuable	Un-vested
Anthony Rivas	3,000,000	–	–	–	3,000,000	–	3,000,000
Kristine May	59,387	62,286	–	–	121,673	–	121,673
Marcus Barron (resigned 3 July 2017)	–	–	–	–	–	–	–
Anand Adusumilli	–	17,599	–	–	17,599	–	17,599
Jonathan Idas	–	17,722	–	–	17,722	–	17,722

Directors' Report

Share holdings

The number of shares in the Company held during the financial year by each Director of Collection House Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2018

Non-Executive Directors	Category	Balance at start of the year, or on appointment	Other changes during the year	Balance at the end of the year
Kerry Daly (resigned 28 November 2017)	Ordinary Shares	394,607	(394,607)	–
Philip Hennessy (resigned 28 November 2017)	Ordinary Shares	50,000	(50,000)	–
Leigh Berkley	Ordinary Shares	–	3,700	3,700
Michael Knox	Ordinary Shares	–	–	–

2018

Executive Director and other key management personnel	Category	Balance at start of the year	Other changes during the year	Balance at the end of the year
Anthony Rivas	Ordinary Shares	–	3,690	3,690
	Indeterminate Rights	–	71,409	71,409
Kristine May	Ordinary Shares	–	–	–
Marcus Barron (resigned 3 July 2017)	Ordinary Shares	–	–	–
Anand Adusumilli	Ordinary Shares	–	–	–
Jonathan Idas	Ordinary Shares	–	–	–

J Additional information

Loans to Directors and Executives

There were no loans to Directors or members of the EMT during FY18.

Shares under performance rights

LTIs are provided to certain eligible employees via the PRP. Total un-issued ordinary shares of the Group under performance rights at the date of this report are detailed below.

Performance rights	Date rights effective	Number of rights granted/to be issued (restated)	Issue price of shares	No of shares issued 2017	No of unvested shares and vested but not yet issued shares under rights (restated)	Expiry date
PRP	1/7/16	3,747,550	Nil	Nil	3,213,133	30 September 2019
PRP	29/6/18	341,071	Nil	Nil	341,071	30 September 2020

Additional information – Unaudited

Insurance of officers

During the financial year the Group paid premiums of \$231,969 in respect of Directors' and Officers' liability and legal expenses' and insurance. This was for current and former Directors and Officers, including senior executives of the Group and Directors, Senior Executives and Secretaries of its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors or Officers in their capacity as Directors or Officers of entities in the Group, and any other payments arising from liabilities incurred by the Directors or Officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the Directors or Officers or the improper use by the Directors or Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

Directors' Report

Proceedings on behalf of the Group

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

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of financial statements.

The Board has considered the non-audit services provided during the year by the auditor, and the Audit and Risk Management Committee is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid and payable to the auditors of the Group, KPMG, are set out below.

Services other than audit and review of financial statements:	2018
Other regulatory audit services	\$
Trust account audits	65,420
Loan covenant compliance	3,050
Other services	
Taxation compliance services	200,393
Accounting advice	62,962
	331,825
Audit and review of financial statements	263,465
Total paid or payable to KPMG	595,290

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 on page 30.

Rounding of amounts

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191*, 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 Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Collection House Limited



Leigh Berkley
Chairman

Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Collection House Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Collection House Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Scott Guse'.

Scott Guse
Partner
Brisbane

23 August 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Income Statement

for the year ended 30 June 2018

	Notes	Consolidated	
		30 June 2018 \$'000	30 June 2017 \$'000
Revenue	5	143,863	133,419
Revenue from continuing operations		143,863	133,419
Direct collection costs		(24,793)	(25,751)
Employee expenses		(52,115)	(54,214)
Depreciation and amortisation expense	6	(4,820)	(4,309)
Operating lease rental expense	6	(7,666)	(8,273)
Restructuring expenses	6	(1,082)	(196)
Other expenses		(10,015)	(9,563)
Finance costs	6	(5,778)	(5,362)
Profit before income tax		37,594	25,751
Income tax expense	7	(11,471)	(8,365)
Profit from continuing operations		26,123	17,386
Profit for the year attributable to equity holders of Collection House Limited		26,123	17,386
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	28	19.2	12.8
Diluted earnings per share	28	18.8	12.6

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

Statement of Comprehensive Income

for the year ended 30 June 2018

	Notes	Consolidated	
		30 June 2018 \$'000	30 June 2017 \$'000
Profit for the year		26,123	17,386
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	20(a)	(77)	(168)
Other comprehensive income for the year, net of income tax		(77)	(168)
Total comprehensive income for the year attributable to equity holders of Collection House Limited		26,046	17,218

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

Balance Sheet

as at 30 June 2018

		Consolidated	
	Notes	30 June 2018 \$'000	30 June 2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	509	1,151
Receivables	9	20,382	11,188
Purchased debt ledgers	10	52,663	47,334
Other current assets	11	1,594	1,225
Total current assets		75,148	60,898
Non-current assets			
Purchased debt ledgers	10	259,192	236,319
Property, plant and equipment	12	2,084	3,062
Intangible assets	13	34,041	36,336
Receivables	9	498	1,378
Total non-current assets		295,815	277,095
Total assets		370,963	337,993
LIABILITIES			
Current liabilities			
Bank Overdraft	8	2,601	–
Payables	14	14,404	10,937
Current tax liabilities		2,714	498
Provisions	15	3,290	3,431
Other financial liabilities	16	2,660	2,406
Total current liabilities		25,669	17,272
Non-current liabilities			
Borrowings	17	131,900	123,200
Deferred tax liabilities	18	616	1,139
Provisions	15	190	224
Other financial liabilities	16	6,011	7,525
Total non-current liabilities		138,717	132,088
Total liabilities		164,386	149,360
Net assets		206,577	188,633
EQUITY			
Contributed equity	19	113,727	112,079
Reserves	20(a)	157	(615)
Retained profits	20(b)	92,693	77,169
Total equity		206,577	188,633

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

Statement of Changes in Equity

for the year ended 30 June 2018

Consolidated	Notes	Attributable to owners of Collection House Limited			Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	
Balance at 1 July 2016		111,006	(1,029)	70,328	180,305
Profit for the year		–	–	17,386	17,386
Other comprehensive income		–	(168)	–	(168)
Total comprehensive income for the year		–	(168)	17,386	17,218
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs	19	1,608	–	–	1,608
Acquisition of treasury shares		(535)	–	–	(535)
Employee share rights – value of employee services	20	–	582	–	582
Dividends provided for or paid	21	–	–	(10,545)	(10,545)
		1,073	582	(10,545)	(8,890)
Balance at 30 June 2016		112,079	(615)	77,169	188,633
Balance at 1 July 2017		112,079	(615)	77,169	188,633
Profit for the year		–	–	26,123	26,123
Other comprehensive income		–	(77)	–	(77)
Total comprehensive income for the year		–	(77)	26,123	26,046
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs	19	1,581	–	–	1,581
Withdrawal of treasury shares		67	–	–	67
Employee share rights – value of employee services	20	–	849	–	849
Dividends provided for or paid	21	–	–	(10,599)	(10,599)
		1,648	849	(10,599)	(8,102)
Balance at 30 June 2018		113,727	157	92,693	206,577

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

Statement of Cash Flows

for the year ended 30 June 2018

	Notes	Consolidated	
		30 June 2018 \$'000	30 June 2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		191,304	174,888
Payments to suppliers and employees (inclusive of goods and services tax)		(95,663)	(102,419)
		95,641	72,469
Income taxes paid		(9,778)	(10,444)
Net cash inflow (outflow) from operating activities	30	85,863	62,025
Cash flows from investing activities			
Payments for property, plant and equipment		(431)	(259)
Proceeds for leasehold improvements		5	(21)
Payments for purchased debt ledgers		(81,324)	(58,315)
Payments for intangible assets		(966)	(1,490)
Net cash (outflow) inflow from investing activities		(82,716)	(60,085)
Cash flows from financing activities			
Proceeds from borrowings		8,700	5,000
Repayment of borrowings		(139)	(44)
Borrowing costs		(1,452)	(1,323)
Interest paid		(4,550)	(3,758)
Dividends paid to Company's shareholders	21	(10,599)	(10,545)
Proceeds from issues of shares and other equity securities		1,581	1,606
Purchase of treasury shares		–	(565)
Net cash (outflow) inflow from financing activities		(6,459)	(9,629)
Net increase (decrease) in cash and cash equivalents		(3,312)	(7,689)
Cash and cash equivalents at the beginning of the financial year		1,151	8,938
Effects of exchange rate changes on cash and cash equivalents		69	(98)
Cash and cash equivalents at end of year	8	(2,092)	1,151
Cash at bank and on hand		509	1,151
Bank Overdraft		(2,601)	–
Cash and cash equivalent at end of year		(2,092)	1,151

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

Notes to the Financial Statements

for the year ended 30 June 2018

These financial statements are for the consolidated entity consisting of Collection House Limited (the Company) and its subsidiaries (the Group).

Collection House Limited is a public company incorporated and domiciled in Australia.

The financial statements were authorised for issue on 23 August 2018 by the directors of the Company.

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.

(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*. Collection House Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

The new standards and amendments to standards mandatory for the first time in the annual reporting period commencing 1 July 2017 do not impact amounts recognised in the current or prior period, and are not likely to affect future periods.

(iii) Early adoption of standards

The Group has elected to continue to early adopt the following pronouncements:

- AASB 9 *Financial Instruments (December 2014)* and associated *Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018)*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. None of the items in the financial statements had to be restated as a result of applying these standards.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

(v) 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.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(h)).

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

There are currently no non-controlling interests in the Group.

(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 Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Collection House Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) 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, rebates 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 Group and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised for the major business activities as follows:

(i) Interest income – Purchased Debt Ledgers (PDL's)

Interest income is recognised using the effective interest method under AASB 9 Financial Instruments. Interest is shown net of any adjustments to the carrying amount of purchased debt ledgers as a result of changes in estimated cash flows.

(ii) Call option income – reflects the revenue the company earns by selling the right to purchase future collections of an eligible portfolio of PDLs to a third party.

Revenue is recognised for accounting purposes when a call option contract is signed, as from the date the third party receives a substantial portion of the cash flows.

(iii) Rendering of services – commission revenue

Revenue from rendering services is recognised to the extent that it is probable that the revenue benefits will flow to the Group and the revenue can be reliably measured.

(iv) Sale of non-current assets

The net gain or loss on disposal of non-current assets is included as either income or an expense at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(v) Dividends

Revenue from dividends and distributions from controlled entities is recognised by the Parent Entity when they are declared by the controlled entities.

Revenue from dividends from other investments is recognised when received.

(f) 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 in the countries where the Company's subsidiaries and associates operate and generate taxable income. 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.

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 foreign operations where the company 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.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

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.

Collection House Limited 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.

(g) 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 (Note 16). 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 current financial liabilities and other non-current financial liabilities. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to the 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 asset's useful life or 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 (Note 24). 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.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, 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 measured initially at their fair values at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If this amount is 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.

(i) Impairment of assets

Goodwill is not subject to amortisation and is tested semi-annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets are reviewed 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 (refer to Note 13). 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).

(j) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, 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 where applicable bank overdrafts. Where applicable, bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition, and 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 will 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 30 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 estimated future cash flows. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(k) Trade receivables (continued)

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had 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.

(l) Other financial assets

Classification

The Group classifies financial assets as subsequently measured at either amortised cost or fair value on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets subsequently measured at amortised cost – PDLs

Classification

Purchased debt ledgers have been included in this category of financial assets as the Group's business model for managing the PDLs and the characteristics of the contractual cash flows of the financial asset are consistent with this measurement approach.

PDLs are included as non-current assets, except for the amount of the ledger that is expected to be realised within 12 months of the balance sheet date, which is classified as a current asset.

Subsequent Measurement

PDLs are initially recognised at cost, as cost reflects fair value plus any incidental costs of acquisition and thereafter measured at amortised cost using the effective interest method, less any impairment losses.

Net gains on financial assets are disclosed in the income statement as interest income net of any change in value of the ledgers.

Impairment

The carrying amount of the PDLs is continuously reviewed to ensure that the carrying amount is not impaired. PDLs are collectively assessed for impairment as they are not considered to be individually significant within the portfolio and they have similar credit risk characteristics.

A PDL is considered to be impaired if the carrying amount exceeds the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the income statement. When a subsequent change in estimated future cash flows causes the amount of impairment loss to reverse, the reversal in impairment is recognised in the income statement to the initial amount of the original impairment loss.

(ii) Trade receivables

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

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date i.e. the date on which the Group commits to purchase or sell the asset. 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.

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.

(iii) 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 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 and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be readily estimated.

(m) Fair value estimation of financial assets and liabilities

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses estimated discounted cash flows to determine fair value.

(n) Other current assets

(i) Legal and court costs capitalised

Significant legal and court costs associated with purchased debt and incurred subsequent to acquisition have been capitalised in recognition that it is expected beyond reasonable doubt future economic benefits will flow to the Group as a result of the expenditure being incurred.

These costs are amortised on a straight line basis over the period of their expected benefit, which is not expected to exceed twelve months.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs are included in the assets 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.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if similar borrowings were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the Group, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(s).

Expenditure, including that on internally generated assets, is only recognised as an asset when the Group controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

All assets are depreciated using the straight-line method over their estimated useful lives taking into account estimated residual values, with the exception of leased assets, which are depreciated over the shorter of the lease term and their useful lives.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

– Plant and equipment	4-12 years
– Computer equipment	3-5 years
– Leased plant and equipment	Term of Lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. When changes are made, adjustments are reflected prospectively in current and future periods only.

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(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(p) Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. 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) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation commences from the point at which the asset is ready for use, and is calculated on a straight-line basis over periods generally ranging from 2 to 10 years. Useful lives are reviewed at each reporting date and adjusted if appropriate.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(iii) Customer contracts

The customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis over periods ranging from 2 to 10 years.

(iv) Other intangible assets

Licences and intellectual property are considered to have a definite useful life and are carried at cost less accumulated amortisation. All costs associated with the maintenance and protection of these assets are expensed in the period consumed.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of 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.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(r) Borrowings

All borrowings are recognised at their principal amounts subject to set off arrangements which represent the present value of future cash flows associated with servicing the debt. Where interest is payable in arrears the interest expense is accrued over the period it becomes due and it is recorded at the contracted rate as part of "Other payables".

Where interest is paid in advance, the interest expense is recorded as a part of "Prepayments" and released over the period to maturity.

Borrowings are removed from the consolidated 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 reporting period.

(s) 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.

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of any hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(t) Provisions

(i) Make good

The Group is required to restore the leased premises for a number of its premises to their original condition at the end of the respective lease terms. A provision has been recognised for the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

(ii) Legal provisions

Provisions for legal claims 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.

(iii) Recognition and measurement

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 as interest expense.

(u) 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 payables.

(ii) 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 period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. 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 the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

(iii) Superannuation Plans

The Company and other controlled entities make statutory contributions to several superannuation funds in accordance with the directions of its employees. Contributions are expensed in the period to which they relate.

(iv) Share-based payments

Share-based compensation benefits are provided to the Chief Executive Officer via the employment agreement between the Company and the Chief Executive Officer.

Share-based compensation benefits are provided to employees other than the Chief Executive Officer via the Collection House Limited Performance Rights Plan. Further details are set out in Note 29.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

The fair value of the performance rights granted under the PRP was independently determined. The fair value at grant date has been calculated using the five day volume weighted average price (VWAP). The expense is recognised over the vesting period. The expense for each relevant financial year will require an assessment at each reporting date of the probability that each performance hurdle will be achieved. This probability factor will then be multiplied by the total number of rights apportioned to each performance hurdle to determine the number used in calculating the charge to profit and loss. Further details are set out in Note 29.

(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 possibility of withdrawal or to 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 the reporting period are discounted to present value.

(v) 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.

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 equity holders of Collection House Limited 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 equity holders of Collection House Limited.

(w) 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.

(x) 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 (Note 28).

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

(y) 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 consolidated 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.

(z) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

- (i) AASB 9 *Financial Instruments (December 2014)* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting, and a new impairment model for financial assets.

Financial assets

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations (continued)

Financial liabilities

AASB 9 retains materially all of the existing requirements in AASB 139 on subsequent measurement of financial liabilities with the exception of the treatment of own credit risk relating to financial liabilities designated at fair value through profit or loss. It is anticipated, based on the current composition of the Group's Balance sheet, that there will be no impact on the Group's accounting for financial liabilities, as the Group has no financial liabilities designated at fair value through profit or loss. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed.

Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. Specifically, AASB 9 requires the Group to account for the expected credit losses from when the financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. The Group has undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it is concluded that the impact would be minimal and the change to the expected loss model is not expected to have a significant impact.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments, particularly in the year of adoption of the new standard.

- (ii) AASB 15 *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118, which covers revenue arising from the sale of goods and the rendering of services, and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has performed an assessment on the effects of applying the new standard on the Group's financial statements and it is concluded that there is no significant impact to the financial statements.

- (iii) AASB 16 *Leases* (applicable to annual reporting periods commencing on or after 1 January 2019)

AASB 16 will result in the majority of leases being recognised on balance sheet, as the distinction between operating

and finance leases is removed. Under the new standard, a lessee initially recognises and measures a right-of-use asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments on a present value basis taking into consideration the contractual lease period and likely periods subject to optional extension. Subsequently, a lessee measures a right-of-use asset similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. The only exceptions are short-term and low-value leases.

The Group is undergoing an assessment of the potential impact of the new standard on its consolidated financial statements. As at the reporting date, the Group has non-cancellable operating lease commitments of \$53,138,000 (see Note 24). Subject to the impact of certain transitional elections with respect to the depreciation of the right-of-use asset and amortisation of lease liability still to be quantified, the Group's operating lease commitments of \$53,138,000 is materially expected to represent the impact on adoption of the new standard. The impact to net assets is expected to be immaterial. To date, the most significant impact identified is that the Group will recognise new assets and liabilities for the operating lease agreements in place for its office premises. In addition, the nature of expenses related to those leases will now change, as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The full extent of the impact is unable to be reliably determined until closer to application date, once the mix and maturity of leases held by the Group at that point is able to be determined.

The Group does not expect to adopt the new standards before their operative date.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(ab) Parent entity financial information

The financial information for the parent entity, Collection House Limited, disclosed in Note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Collection House Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Collection House Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Collection House Limited, 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.

Notes to the Financial Statements

continued

1 Summary of significant accounting policies (continued)

(ab) Parent entity financial information (continued)

In addition to its own current and deferred tax amounts, Collection House Limited 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 Collection House Limited for any current tax payable assumed and are compensated by Collection House Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Collection House Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are 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.

2 Financial risk management

The Group's financial assets and liabilities consist mainly of PDLs, deposits with banks, trade and other receivables, payables and borrowings.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity 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. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks, and aging analysis for credit risk.

Risk management is carried out by the finance department under policies approved by the Audit and Risk Management Committee of the Board. Under the authority of the Board of Directors the Audit and Risk Management Committee ensures that the total risk exposure of the Group is consistent with the Business Strategy and within the risk tolerance of the Group. Regular risk reports are tabled before the Audit and Risk Management Committee.

Within this framework, the Finance team identifies, evaluates and manages financial risks in close co-operation with the Group's operating units.

(a) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Group's income.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the New Zealand (NZ) Dollar and the Philippine Peso. Fluctuations in either of these currencies may impact the Group's results.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

Sensitivity

At 30 June 2018, had the Australian Dollar weakened/strengthened by 10% against the NZ Dollar or the Philippine Peso with all other variables held constant, the impact for the year would have been immaterial to both profit for the year and equity.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, 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 variable rates expose the Group to cash flow interest rate risk. During 2018 and 2017, the Group borrowings at variable rates were denominated in Australian Dollars only.

Group finance facilities are a combination of overdraft and short-term commercial bill facilities, all of which are on a variable interest rate basis. In the current interest rate environment, this approach maximises available cash with minimal exposure to interest rate movements. All aspects of the financing arrangements, including interest rate structuring can be reviewed as required during the life of the facility.

The Group analyses interest rate exposure in the context of current economic conditions. Management monitors the impact on profits of specific interest rate increases, and annual budgets and ongoing forecasts are framed based upon group and market expectations of interest rate levels for the coming year.

The Board of Directors have authorised the use of interest rate swaps as a tool for managing interest rate risk within the Group. At 30 June 2018, the Group has no remaining interest rate swap arrangement, as outlined below.

On 9 February 2015, the Company confirmed an interest rate swap transaction for a notional amount of \$20m at a fixed rate of 1.86% per annum effective as at 9 February 2015 and terminated as at 9 February 2018.

Notes to the Financial Statements

continued

2 Financial risk management (continued)

(a) Market risk (continued)

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2018		30 June 2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Borrowings	3.4%	131,900	2.7%	123,200
Bank overdraft	6.7%	2,601	–	–
Interest rate swaps (notional principal amount)	–	–	3.3%	(20,000)
Net exposure to cash flow interest rate risk		134,501		103,200

Sensitivity

At 30 June 2018, if interest rates had changed by +/- 25 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been \$236,000 lower/higher (2017 – change of 25 bps: \$181,000 lower/higher), mainly as a result of higher/lower interest expense from net borrowings. Other components of equity would have been \$236,000 lower/higher (2017 – \$181,000 lower/higher) mainly as a result of an increase/decrease in cash not required for interest payments. Other financial assets and liabilities are not interest bearing and therefore are not subject to interest rate risk.

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

	Carrying amount \$'000	Interest rate risk			
		–25 bps		+25 bps	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Consolidated 30 June 2018					
Financial liabilities	6	–	–	(–)	(–)
Borrowings	131,900	231	231	(231)	(231)
Bank Overdraft	2,601	5	5	(5)	(5)
Total increase / (decrease) in financial liabilities		236	236	(236)	(236)

	Carrying amount \$'000	Interest rate risk			
		–25 bps		+25 bps	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Consolidated 30 June 2017					
Financial liabilities	180	–	–	(–)	(–)
Borrowings	103,200	181	181	(181)	(181)
Bank Overdraft	–	–	–	–	–
Total increase / (decrease) in financial liabilities		181	181	(181)	(181)

Notes to the Financial Statements

continued

2 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, as well as credit exposures to clients, including outstanding receivables and committed transactions.

The carrying amount of financial assets represents the maximum credit exposure.

	30 June 2018 \$'000	30 June 2017 \$'000
Cash and cash equivalents	509	1,151
Receivables	20,880	12,566
Purchased debt ledgers	311,855	283,653
Other current assets	1,594	1,225
Total financial assets	334,838	298,595

Credit risk in relation to PDLs is managed via managements' approach in determining the initial purchase price to pay for a portfolio of debt. At acquisition, the PDL is initially recognised at fair value at a portfolio level, being the transaction price and thereafter at amortised cost, less any impairment losses. Most PDLs, by their nature are impaired on acquisition which is reflected in the fair value at acquisition. Amortised cost is measured as the present value of forecast future of cash flows using the effective interest rate method. The effective interest rate is calculated on initial recognition and reflects a constant periodic return on the carrying value of the loans.

Management continuously monitor cash flows and the carrying value of the PDLs. An impairment is assessed on a regular basis by management and is identified on a portfolio basis following evidence that the PDL is impaired. An impairment is recognised where actual performance and re-forecast future cash flows deviate to below the initial effective interest rate. During the year ended 30 June 2018, no impairment charge was recognised (30 June 2017: nil) as future cash flows remain at a rate above the initial effective interest rate. All income from the recovery of PDLs has been recognised as interest.

Ongoing credit risk is managed through the application of a valuation model, which forecasts recoverability based on the historical experience of the company based on metrics such as debt type, age, and customer status.

The Group has no significant concentrations of trade credit risk. The Group has policies in place to ensure that services are made to customers with an appropriate credit history.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. Refer to Note 9 for further details.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the dynamic nature of the underlying businesses, the Finance Team aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flow. Cash flows are forecast on a day-to-day basis across the Group to ensure that sufficient funds are available to meet requirements on the basis of expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Notes to the Financial Statements

continued

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Financing arrangements

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

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Term debt facility	43,100	1,800
Group set off	10,408	12,500

The group set off can be drawn upon at any time and the term debt option can be drawn upon within 2 days. The group set off is repayable on demand, and the term debt is repayable at the end of the term.

The facility, which was syndicated in January 2014 and December 2017, was subject to meeting a number of financial undertakings. The undertakings are reviewed by the Audit and Risk Management Committee each month, and are reported on to the finance provider bi-annually. All companies within the Group are required to notify the finance provider of any event of default as soon as it becomes aware of them.

In addition to the above the Group is required to keep the finance provider fully informed of relevant details of the Group as they arise.

Further details of the banking facility are set out in Note 17.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date 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.

Contractual maturities of financial liabilities At 30 June 2018	Less than 6 months \$'000	6 – 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
Non-derivatives						
Non-interest bearing	14,404	–	–	–	–	14,404
Fixed rate	2,601	–	–	–	–	2,601
Variable rate	–	–	6	131,900	–	131,906
Total non-derivatives	17,005	–	6	131,900	–	148,911

At 30 June 2017	Less than 6 months \$'000	6 – 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
Non-derivatives						
Non-interest bearing	10,937	–	–	–	–	10,937
Variable rate	–	180	–	123,200	–	123,380
Total non-derivatives	10,937	180	–	123,200	–	134,317

Notes to the Financial Statements

continued

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.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(i) Estimated impairment of goodwill

Annually the Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(p). 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 13 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) PDLs

PDLs are initially recognised at fair value plus any directly attributable acquisition costs. Subsequent to initial recognition, PDLs are measured at amortised cost using the effective interest method, less any impairment losses. Management continue to monitor the performance and key estimates used in determining whether any objective evidence exists that a PDL may be impaired. This includes:

- re-forecasting expected future cash flows every six months. An impairment is recognised where actual performance and re-forecast future cash flows deviate to below the initial effective interest rate. Refer to Note 10 for further details.
- regular assessment of the estimated forecast amortisation rate applied to PDLs. For the year ended 30 June 2018, the company has estimated that PDLs amortise at a rate of 46 percent per annum (30 June 2017: 43%).

(iii) Estimated impairment of non-financial assets and intangible assets other than goodwill

Annually the Group tests whether the non-financial assets or intangible assets of the Group (other than goodwill) have suffered any impairment, in accordance with the accounting policy stated in Note 1(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

(iv) Performance rights

The Group determines the amount to be posted to the share based payments reserve based on management's best estimate of employees meeting their performance hurdles. The value of performance rights could change if the number of employees that meet their performance hurdles differs significantly from management's estimate.

(b) Critical judgements in applying the entity's accounting policies

(i) Employee benefits

Management judgment is applied in determining the key assumptions used in the calculation of long service leave at balance date, including future increases in wages and salaries, future on-cost rates, discount rates, and experience of employee departures and period of service.

(ii) Useful lives of property, plant and equipment, and intangible assets other than goodwill

The Group's management determines the estimated useful lives and related depreciation and amortisation charges for property, plant and equipment at the time of acquisition. As described in Note 1(o) useful lives are reviewed regularly throughout the year for appropriateness.

Notes to the Financial Statements

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4 Segment information

(a) Description of segments

Individual business segments are identified on the basis of grouping individual products or services subject to similar risks and returns. The business segments reported are: Collection Services and Purchased Debt Ledgers. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The consolidated entity is organised on a global basis into the following divisions by product and service type.

Collection Services

The earning of commissions on the collection of debts for clients.

Purchased Debt Ledgers

The collection of debts from client ledgers acquired by the Group.

All other segments

All other segments includes unallocated revenue and expenses, intersegment eliminations, interest, borrowings, and income tax expenses.

(b) Segment information provided to the Board

	Collection services \$'000	Purchased debt ledgers \$'000	All other segments \$'000	Consolidated \$'000
2018				
Segment revenue				
Sales to external customers	68,652	106	–	68,758
Intersegment sales	386	–	(177)	209
Total sales revenue	69,038	106	(177)	68,967
Interest and other income	–	74,896	–	74,896
Total segment revenue	69,038	75,002	(177)	143,863
Segment result				
Segment result	12,564	36,695	(5,887)	43,372
Interest expense and borrowing costs			(5,778)	(5,778)
Profit before income tax				37,594
Income tax expense			(11,471)	(11,471)
Profit for the year				26,123
Segment assets and liabilities				
Segment assets	198,673	319,828	(146,410)	372,091
Segment liabilities	28,468	151,356	(14,311)	165,513
Other segment information				
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	1,208	83,047	–	84,255
Total acquisitions				84,255
Depreciation and amortisation expense	3,162	1,383	275	4,820
Total depreciation and amortisation				4,820
Other non-cash expenses	451	51,920	1,071	53,442

Notes to the Financial Statements

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4 Segment information (continued)

(b) Segment information provided to the Board (continued)

2017	Collection services (restated) \$'000	Purchased debt ledgers (restated) \$'000	All other segments \$'000	Consolidated \$'000
Segment revenue				
Sales to external customers	67,879	250	–	68,129
Intersegment sales	347	–	149	496
Total sales revenue	68,226	250	149	68,625
Interest and other income	–	64,794	–	64,794
Total segment revenue	68,226	65,044	149	133,419
Segment result				
Segment result	12,895	26,723	(8,505)	31,113
Interest expense and borrowing costs			(5,362)	(5,362)
Profit before income tax				25,751
Income tax expense			(8,365)	(8,365)
Profit for the year				17,386
Segment assets and liabilities				
Segment assets	186,993	285,984	(133,998)	338,979
Segment liabilities	27,670	134,776	(12,101)	150,345
Other segment information				
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	3,912	60,914	–	64,826
Total acquisitions				64,826
Depreciation and amortisation expense	2,379	988	942	4,309
Total depreciation and amortisation				4,309
Other non-cash expenses	212	39,539	2,389	42,140

The ThinkMe Finance (financing broking) and Safe Horizons (financial hardship services) business have been reclassified from Collection Services to the Purchase Debt Ledger segment during the period, with comparatives re-stated above.

(c) Geographical information

The consolidated entity operates in two main geographical areas, Australia and New Zealand.

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Australia	138,484	128,534	360,092	327,681	81,796	64,786
New Zealand	5,037	4,375	9,822	9,450	2,459	40
Philippines	209	15	2,177	1,847	–	–
	143,730	132,924	372,091	338,978	84,255	64,826

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

Notes to the Financial Statements

continued

4 Segment information (continued)

(c) Geographical information (continued)

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1(c) and AASB 8 *Operating Segments*.

Segment revenues, expenses, assets and liabilities 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 assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other payables, employee benefits and interest bearing liabilities. Segment assets and liabilities do not include income taxes.

Unallocated items mainly comprise interest or dividend-earning assets and revenue, interest bearing loans, borrowing costs and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(ii) Segment margins

	Collection services		Purchased debt ledgers	
	30 June 2018 %	30 June 2017 % (restated)	30 June 2018 %	30 June 2017 % (restated)
Margin on segment revenue	18	19	49	41

(d) Other segment information

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the chief operating decision maker is consistent with that in the income statement.

5 Revenue

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Interest income	58,935	62,831
Commission	68,637	68,246
Gain on sale of PDLs	10,119	—
Call option income	5,645	1,963
Other revenue	527	379
Revenue from continuing operations	143,863	133,419

Notes to the Financial Statements

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6 Expenses

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements, plant and equipment	897	861
Total depreciation	897	861
<i>Amortisation</i>		
Computer software	3,018	2,674
Customer contracts	497	338
Business formation costs	38	38
Stamp Duty	370	398
Total amortisation	3,923	3,448
Total depreciation and amortisation	4,820	4,309
<i>Write off of assets (included in other expenses)</i>		
Intangible assets	211	1,810
Plant and equipment	–	(18)
Leasehold improvements	–	–
Total write off of assets	211	1,792
<i>Finance expenses</i>		
Interest and finance charges paid/payable	5,798	5,459
Amount capitalised (a)	(20)	(97)
Finance costs expensed	5,778	5,362
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	7,666	8,273
Total rental expense relating to operating leases	7,666	8,273
<i>Restructuring expenses</i>		
Restructure costs	1,082	196
Total restructuring expenses	1,082	196

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 3.0% (2017 – 4.0%).

Notes to the Financial Statements

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7 Income tax expense

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
(a) Income tax expense		
Income tax expense – Profit from continuing operations	11,471	8,365
Income tax expense is attributable to:		
Current tax	11,815	8,288
Deferred tax	(523)	761
Under (over) provided in previous years	179	(684)
Aggregate income tax expense	11,471	8,365
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (Note 18)	(277)	435
(Decrease) increase in deferred tax liabilities (Note 18)	(246)	326
	(523)	761
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	37,594	25,751
Tax at the Australian tax rate of 30% (2017 – 30%)	11,278	7,725
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	228	31
Effect of tax rates in foreign jurisdictions	(10)	(7)
Tax exempt (income) / loss	(51)	–
	11,445	7,749
Adjustments for current tax of prior periods	26	616
	11,471	616
Income tax expense	11,471	8,365

8 Cash and cash equivalents

(a) Reconciliation of 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:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Bank Overdraft	(2,601)	–
Cash at bank and on hand	509	1,151
Balances per statement of cash flows	(2,092)	1,151

(b) Bank overdraft right of set-off

With effect from 1 July 2004, the Company holds a contractual right of set-off between the current overdraft balance and the cash at bank balances.

Notes to the Financial Statements

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9 Trade and other receivables

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Current		
Net trade receivables		
Trade receivables	12,253	5,804
Provision for impairment of receivables (a)	(163)	(81)
	12,090	5,723
Accrued revenue	4,752	3,512
Other assets	869	414
Prepaid expenses	2,671	1,539
	20,382	11,188
Non-current		
Prepaid expenses	498	1,378
	20,880	1,378

(a) Impaired trade receivables

As at 30 June 2018 current trade receivables of the Group with a value of \$241,000 (2017 – \$212,000) were assessed as potentially impaired. The amount of the provision was \$163,000 (2017 – \$81,000). The individually impaired receivables mainly relate to debtors which have been outstanding for more than 90 days. It has been assessed that a portion of these receivables are expected to be recovered.

The ageing of these receivables is as follows:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Over 3 months	241	212
	241	212

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

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
At 1 July	81	93
Provision for impairment recognised during the year	449	81
Receivables written off during the year as uncollectible	(95)	–
Unused amount reversed	(272)	(93)
	163	81

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

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 any collateral in relation to these receivables.

Notes to the Financial Statements

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9 Trade and other receivables (continued)

(b) Past due but not impaired

As at 30 June 2018, trade receivables of the Group of \$2,109,000 (2017 – \$1,786,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Up to 3 months	1,383	1,557
Over 3 months	726	229
	2,109	1,786

10 Purchased debt ledgers

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Current	52,663	47,334
Non-current	259,192	236,319
	311,855	283,653

PDLs are measured at amortised cost using the effective interest method in accordance with AASB 9 *Financial Instruments*.

The effective interest rate is the implicit interest rate based on forecast collections determined in the period of acquisition of an individual PDL and equates to the Internal Rate of Return (IRR) of the forecast cash flows without any consideration of collection costs.

11 Other current assets

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Other deposits	42	21
Legal and court costs capitalised – net	1,552	1,204
	1,594	1,225

Notes to the Financial Statements

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12 Property, plant and equipment

	Plant and equipment \$'000	Leasehold improvements \$'000	Leased plant and equipment \$'000	Work-in- progress \$'000	Total \$'000
At 1 July 2016					
Cost or fair value	9,450	5,161	–	561	15,172
Accumulated depreciation	(7,121)	(3,774)	–	–	(10,895)
Net book amount	2,329	1,387	–	561	4,277
Year ended 30 June 2017					
Opening net book amount	2,329	1,387	–	561	4,277
Additions	291	12	–	122	425
Disposals	(696)	–	–	–	(696)
Depreciation charge	(505)	(356)	–	–	(861)
Transfers	57	10	–	(150)	(83)
Closing net book amount	1,476	1,053	–	533	3,062
At 30 June 2017					
Cost or fair value	9,115	5,183	–	533	14,831
Accumulated depreciation	(7,639)	(4,130)	–	–	(11,769)
Net book amount	1,476	1,053	–	533	3,062
	Plant and equipment \$'000	Leasehold improvements \$'000	Leased plant and equipment \$'000	Work-in- progress \$'000	Total \$'000
Year ended 30 June 2018					
Opening net book amount	1,476	1,053	–	533	3,062
Additions	44	2	–	–	51
Disposals	(1)	(8)	–	–	(9)
Depreciation charge	(571)	(325)	–	–	(901)
Transfers	–	–	–	(119)	(119)
Closing net book amount	948	722	–	414	2,084
At 30 June 2018					
Cost or fair value	9,158	5,177	–	414	14,754
Accumulated depreciation	(8,210)	(4,455)	–	–	(12,670)
Net book amount	948	722	–	414	2,084

(a) Non-current assets pledged as security

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

Notes to the Financial Statements

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13 Intangible assets

	Goodwill \$'000	Computer software \$'000	Customer contracts \$'000	Other intangible assets \$'000	Work-in- progress – cost* \$'000	Total \$'000
At 1 July 2016						
Cost	23,490	22,060	2,487	184	2,478	50,699
Accumulated amortisation and impairment	(3,763)	(8,635)	(842)	(95)	–	(13,335)
Net book amount	19,727	13,425	1,645	89	2,478	37,364
Year ended 30 June 2017						
Opening net book amount	19,727	13,425	1,645	89	2,478	37,364
Exchange differences	–	–	–	–	–	–
Additions – internal development	–	1,880	–	–	1,998	3,878
Amortisation charge	–	(2,674)	(338)	(38)	–	(3,050)
Impairment charge	–	(393)	–	–	(1,417)	(1,810)
Disposals	–	(10)	–	–	–	(10)
Transfers	–	1,375	–	–	(1,411)	(36)
Closing net book amount	19,727	13,603	1,307	51	1,648	36,336
At 30 June 2017						
Cost	23,490	25,305	2,487	184	1,648	53,114
Accumulated amortisation and impairment	(3,763)	(11,702)	(1,180)	(133)	–	(16,778)
Net book amount	19,727	13,603	1,307	51	1,648	36,336
	Goodwill \$'000	Computer software \$'000	Customer contracts \$'000	Other intangible assets \$'000	Work-in- progress – cost* \$'000	Total \$'000
Year ended 30 June 2018						
Opening net book amount	19,727	13,603	1,307	51	1,648	36,336
Exchange differences	(5)	–	–	–	–	(5)
Additions – internal development	–	125	–	–	1,156	1,281
Amortisation charge	–	(3,018)	(497)	(38)	–	(3,553)
Impairment charge	–	–	–	–	(124)	(124)
Disposals	–	–	–	(13)	–	(13)
Transfers	–	2,096	–	–	(1,977)	119
Closing net book amount	19,722	12,806	810	0	703	34,041
At 30 June 2018						
Cost	23,490	27,526	2,487	171	827	54,501
Accumulated amortisation and impairment	(3,768)	(14,720)	(1,677)	(171)	(124)	(20,460)
Net book amount	19,722	12,806	810	–	703	34,041

* Work-in-progress includes capitalised development costs of an internally generated intangible asset which is under development.

Notes to the Financial Statements

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13 Intangible assets (continued)

(a) Impairment tests for goodwill

All goodwill is allocated to the Company's Collection Services cash-generating unit (CGU).

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and include a terminal value calculation. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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

	Growth rate (revenue)		Growth rate (expenses)		Discount rate *	
	30 June 2018 %	30 June 2017 %	30 June 2018 %	30 June 2017 %	30 June 2018 %	30 June 2017 %
CGU						
Collection services	5.00	5.00	3.00	3.00	12.70	12.70

* In performing the value-in-use calculation, the Group has applied the post-tax (2017: pre-tax) discount weighted average cost of capital to discount the forecast future attributable post tax (2017: pre-tax) cash flows.

(c) Impairment charge

As a result of the impairment evaluation, the Group has determined that the carrying value of intangible assets does not exceed their value-in-use, and no impairment charge was required (2017: Nil).

(d) Impact of possible changes in key assumptions

Collection services

There is a substantial margin between the calculated value-in-use and the carrying value of all assets within the CGU, and as such there is no reasonably possible change in key assumptions that would give rise to an impairment.

14 Trade and other payables

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Trade payables	6,623	3,928
Accrued expenses	5,944	5,259
Other payables	1,837	1,750
	14,404	10,937

Notes to the Financial Statements

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15 Provisions

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Current		
Employee benefits	2,715	2,814
Make good	570	570
Fringe benefits tax	5	47
	3,290	3,431
Non-current		
Employee benefits	190	224
	190	224

(a) Movements in provisions

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

	Make good \$'000	Fringe benefits tax \$'000
2018		
Current		
Carrying amount at start of year	570	47
– additional provisions recognised	–	149
– payments / other sacrifices of economic benefits	–	(191)
Carrying amount at end of year	570	5
2017		
Current		
Carrying amount at start of year	1,105	66
– additional provisions recognised	–	217
– payments / other sacrifices of economic benefits	(535)	(236)
Carrying amount at end of year	570	47

(b) Superannuation plans

All employees are entitled to varying levels of benefits on retirement, disability or death. The superannuation plans provide accumulated benefits. Employees contribute to the plans at various percentages of their wages and salaries. Where there is a legal requirement the Company contributes the appropriate statutory percentage of employees' salaries and wages.

Notes to the Financial Statements

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16 Other financial liabilities

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Current		
Contingent consideration	–	–
Finance lease liabilities	6	175
Lease incentive liabilities	572	572
Other current financial liabilities	2,082	1,659
	2,660	2,406
Non-current		
Finance lease liabilities	–	5
Lease incentive liabilities	5,197	4,459
Other non-current financial liabilities	814	3,061
	6,011	7,525

17 Borrowings

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Secured		
Bank loans	131,900	123,200
Total secured non-current borrowings	131,900	123,200

(a) Secured liabilities and assets pledged as security

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
The total secured liabilities are as follows:		
Bank loans	131,900	123,200
Total secured liabilities	131,900	123,200

All bank loans are denominated in Australian dollars and are secured by a fixed and floating charge over all of the assets and any uncalled capital of the parent entity and of its Australian-owned entities.

Notes to the Financial Statements

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17 Borrowings (continued)

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

The carrying amounts of assets pledged as security for borrowings are:

	Notes	Consolidated	
		30 June 2018 \$'000	30 June 2017 \$'000
Current			
<i>Floating charge</i>			
Cash and cash equivalents	8	509	1,151
Receivables	9	20,382	11,188
Purchased debt ledgers	10	52,293	47,334
Total current assets pledged as security		73,184	59,673
Non-current			
<i>Floating charge</i>			
Receivables	9	498	1,378
Purchased debt ledgers	10	259,562	236,319
Plant and equipment	12	2,203	3,062
Total non-current assets pledged as security		262,263	240,759
Total assets pledged as security		335,447	300,432

(b) Fair value

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

Group	30 June 2018		30 June 2017	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
On-balance sheet (i)				
<i>Non-traded financial liabilities</i>				
Bank loans	131,900	131,900	123,200	123,200
	131,900	131,900	123,200	123,200

As noted, none of the classes of liabilities are readily traded on organised markets in standardised form.

(i) On-balance sheet

The fair value of current borrowings equals their carrying amount. The facility is structured as a series of loan instruments which are repriced on a regular basis with terms of less than six months, and the impact of discounting on such instruments is not material. The rolling nature of the loan instruments is designed to provide the Group with maximum flexibility within the overall facility, however the overall facility is classified as non-current, as it is not due for renewal until January 2020.

(c) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in Note 2.

For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to Note 2.

Notes to the Financial Statements

continued

18 Deferred tax balances

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
(a) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses	73	190
Provisions and employee benefits	1,356	1,185
Lease incentives	1,731	1,509
Accruals	80	47
Unearned revenue	–	–
Doubtful debts	49	24
Future deductible windup costs	–	2
Other	(41)	14
	3,248	2,971
Set-off of deferred tax liabilities pursuant to set-off provisions (b)	(3,248)	(2,971)
Net deferred tax assets	–	–
Movements:		
Opening balance at 1 July	2,971	3,290
Credited / (charged) to the income statement (Note 7)	277	(319)
Closing balance at 30 June	3,248	2,971

Movements – Consolidated	Tax losses \$'000	Provisions and employee benefits \$'000	Lease incentive \$'000	Accruals \$'000	Unearned revenue \$'000	Doubtful debts \$'000	Future deductible windup costs \$'000	Other \$'000	Total \$'000
At 30 June 2016	506	1,403	1,214	88	29	28	3	19	3,290
– to profit or loss	(316)	(218)	295	(41)	(29)	(4)	(1)	(5)	(319)
At 30 June 2017	190	1,185	1,509	47	–	24	2	14	2,971

Movements – Consolidated	Tax losses \$'000	Provisions and employee benefits \$'000	Lease incentive \$'000	Accruals \$'000	Unearned revenue \$'000	Doubtful debts \$'000	Future deductible windup costs \$'000	Other \$'000	Total \$'000
At 30 June 2017	190	1,185	1,509	47	–	24	2	14	2,971
– to profit or loss	(117)	171	222	33	–	25	(2)	(55)	277
At 30 June 2018	73	1,356	1,731	80	–	49	–	(41)	3,248

Notes to the Financial Statements

continued

18 Deferred tax balances (continued)

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
(b) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Property, plant and equipment	3,115	3,451
Purchased debt	743	653
Prepayments	6	6
Other	–	–
	3,864	4,110
Total deferred tax liabilities	3,864	4,110
Set-off of deferred tax liabilities pursuant to set-off provisions (a)	(3,248)	(2,971)
Net deferred tax liabilities	616	1,139

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Movements:		
Opening balance at 1 July	4,110	3,668
Charged / (credited) to the income statement (Note 7)	(246)	442
Closing balance at 30 June	3,864	4,110

Movements – Consolidated	Property, plant and equipment \$'000	Purchased debt \$'000	Prepayments \$'000	Other \$'000	Total \$'000
At 30 June 2016	3,044	605	6	13	3,668
– to profit or loss	407	48	–	(13)	442
At 30 June 2017	3,451	653	6	–	4,110

Movements – Consolidated	Property, plant and equipment \$'000	Purchased debt \$'000	Prepayments \$'000	Other \$'000	Total \$'000
At 30 June 2017	3,451	653	6	–	4,110
– to profit or loss	(336)	90	–	–	(246)
At 30 June 2018	3,115	743	6	–	3,864

Notes to the Financial Statements

continued

19 Contributed equity

	Company		Company	
	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
(a) Share capital				
Ordinary shares – fully paid	137,152,058	135,889,764	114,195	112,614
Treasury shares	(354,286)	(412,833)	(468)	(535)
Total contributed equity	136,797,772	135,476,931	113,727	112,079

(b) Movements in ordinary share capital

Issues of ordinary shares during the year

Date	Details	Number of shares	\$'000
1 July 2016	Opening balance	134,489,172	111,006
21 October 2016	Dividend reinvestment plan issues	1,400,592	1,617
	Less: Transaction costs arising on share issues	–	(9)
30 June 2017	Closing balance	135,889,764	112,614
1 July 2017	Opening balance	135,889,764	112,614
21 October 2017	Dividend reinvestment plan issues	1,262,294	1,589
	Less: Transaction costs arising on share issues	–	(8)
30 June 2018	Closing balance	137,152,058	114,195

(c) 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 and amounts paid on the 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.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Treasury shares

When share capital recognised as equity is repurchased or held by employee share plans and subject to vesting conditions, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

(e) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 2.5% discount to the market price.

Notes to the Financial Statements

continued

19 Contributed equity (continued)

(f) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 29.

(g) Performance rights

Information relating to the performance rights plan adopted as a means of rewarding and incentivising key employees, including details of rights issued during the financial year, is set out in Note 29.

(h) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, and to provide adequate returns for shareholders and benefits for other stakeholders.

"Capital" includes all funding provided under the Group's funding facility (net of cash balances for which a right of offset is held) plus equity as shown in the balance sheet.

In order to maintain or adjust the capital structure, the Group may:

- draw down or repay debt funding;
- adjust the amount of dividends paid to shareholders;
- negotiate new or additional facilities or cancel existing ones;
- return capital to shareholders or issue new shares or;
- sell assets to reduce debt.

The Group manages capital to ensure that the goals of continuing as a going concern and the provision of acceptable stakeholder returns are met.

Arrangements with the Group's financiers are in place to ensure that there is sufficient undrawn credit available to meet unforeseen circumstances should they arise. Financing facilities are renegotiated on a regular basis to ensure that they are sufficient for the Group's projected growth plus a buffer. As far as possible, asset purchases are funded from operational cash flow, allowing undrawn balances to be maintained. Cash is monitored on a daily basis to ensure that immediate and short term requirements can be met. By maintaining a buffer of undrawn funds, the Company reduces the risk of liquidity and going concern issues.

Management of the mix between debt and equity impacts the Group's Cost of Capital and hence ability to provide returns to stakeholders, primarily the funding institutions and shareholders. The Group maintains its debt-to-equity mix in accordance with its immediate needs and forecasts at any point in time. Effective management of the capital structure maximises profit and hence franked dividend returns to shareholders.

When additional funding is required, it is sourced from either debt or equity, depending upon management's evaluation as to which is the most appropriate at that point in time.

The financing facility includes all funding provided by the Group's main bankers. Details of financing facilities are set out in Note 2.

Quantitative analyses are conducted by management using contributed equity balances shown above together with the drawn and undrawn loan balances disclosed in Note 2.

As part of the financing facility, the Company is required to monitor a number of financial indicators as specified by the financiers. The Group monitors the indicators on a monthly basis and reports to the funding providers every six months. The Group has comfortably met these covenants at all times during the year.

This strategy was followed during both the 2018 and 2017 financial years.

Notes to the Financial Statements

continued

20 Reserves and retained earnings

(a) Reserves

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Share-based payments reserve	1,622	773
Foreign currency translation reserve	(1,465)	(1,388)
	157	(615)

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	773	191
Rights expense	849	582
Balance 30 June	1,622	773

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Movements:		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(1,388)	(1,220)
Currency translation differences arising during the year	(77)	(168)
Balance 30 June	(1,465)	(1,388)

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Balance 1 July	77,169	70,328
Net profit for the year	26,123	17,386
Dividends	(10,599)	(10,545)
Balance 30 June	92,693	77,169

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of performance rights issued to employees that have not yet vested, or those that have vested at year end but not yet been issued as shares.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Notes to the Financial Statements

continued

21 Dividends

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
(a) Ordinary shares		
Fully franked final dividend for the year ended 30 June 2017 – 3.9 cents per share (2016 – 3.9 cents)	5,300	5,245
Fully franked interim dividend for the year ended 30 June 2018 – 3.9 cents per share (2017 – 3.9 cents)	5,299	5,300
	10,599	10,545
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2017 and 2016 were as follows:		
Paid in cash	9,018	8,928
Satisfied under the Dividend Reinvestment Plan	1,581	1,617
	10,599	10,545
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the directors have recommended the payment of a fully franked final dividend of 3.9 cents per fully paid ordinary share (2017 – 3.9 cents, fully franked). The aggregate amount of the proposed dividend expected to be paid on 26 October 2018 out of retained profits and a positive net balance sheet at 30 June 2018, but not recognised as a liability at year end, is	5,349	5,300
	5,349	5,300

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2018 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 2018.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2017 – 30%)	42,083	37,375
	42,083	37,375

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

- (a) franking credits that will arise from the payment of the amount of the provision for income tax;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Notes to the Financial Statements

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22 Remuneration of auditors

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

	Consolidated	
	30 June 2018 \$	30 June 2017 \$
Audit and review services		
(a) Auditors of the Company – KPMG		
Audit and review of the financial statements	263,465	212,400
Other regulatory audit services	68,470	70,700
Total auditors' remuneration	331,935	283,100
(b) Other auditors		
Audit and review of the financial statements	3,898	3,794
Total auditors' remuneration	3,898	3,794
Other services		
Auditors of the Company – KPMG		
In relation to accounting advice	62,962	32,800
In relation to taxation services	200,393	145,500
	263,355	178,300

23 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2018 in respect of:

Claims

There were no claims of a material nature during the relevant period.

Purchase Agreement with Put & Call Option with Insolve Capital Australia Pty Ltd (Balbec Capital LP)

- The Group had assigned five years' cash flow to Insolve Capital Australia Pty Ltd (Balbec Capital LP) through a put and call option agreement.
- The Group has the option to repurchase the residual rights to collect the remaining arrangements at the end of the five-year agreement, at a market price determined by the performance of the accounts during the term of the agreement.
- Either party must exercise their option between 1 May 2023 to 3 November 2023.

Guarantees

- Bank Guarantees (secured) exist in respect of satisfactory contract performance in the normal course of business for the Group amounting to \$6,032,045 (2017: \$6,203,295). During the period, the Group replaced Bank Guarantees and obtained additional Bank Guarantees to secure our continued performance in the normal course of business resulting in the decrease.
- Guarantees and Indemnities (secured) given by the Company and certain of its subsidiaries in support of the existing Syndicated Loan Facility provided by Westpac Banking Corporation and Commonwealth Bank of Australia, are currently in place.

Paragraphs (a) and (b) above are secured by a Fixed and Floating charge over the assets of the Company and certain of its subsidiaries of the Group and may give rise to liabilities in the Group, if the associates do not meet their respective obligations under the terms of the contracts, subject to the guarantees.

No material losses are anticipated in respect of any of the above contingent liabilities.

Notes to the Financial Statements

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24 Commitments

(a) Capital commitments

Capital expenditure contracted for in relation to purchased debt commitments at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Within one year	32,040	36,347
Later than one year, but not later than five years	210	5,000
	32,250	41,347

(b) Non-cancellable operating leases

The Group leases its offices under non-cancellable operating leases expiring at various times during the next eleven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	6,684	7,087
Later than one year but not later than five years	25,906	25,468
Later than five years	20,548	26,192
	53,138	58,747

(c) Non-cancellable finance leases

The Group leases items of plant and equipment and intangibles under finance leases expiring within three years.

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:		
Within one year	6	179
Later than one year but not later than five years	–	6
Later than five years	–	–
Minimum lease payments	–	185
Less: Future finance charges	–	(5)
Recognised as a liability	6	180

Notes to the Financial Statements

continued

25 Related party transactions

(a) Group companies

Details of the parent company, the ultimate parent company and interests in subsidiaries are set out in Note 27.

(b) Key management personnel compensation

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Short-term employee benefits	1,877,336	2,114,386
Post-employment benefits	127,687	173,986
Other long-term benefits	58,375	510,573
Termination benefits	–	181,402
Share-based payments	605,450	546,432
	2,668,848	3,526,779

Detailed remuneration disclosures are provided in sections A-J of the remuneration report on pages 17 to 28.

(c) Other transactions with key management personnel or entities related to them

No other transactions were made with key management personnel or entities related to them other than as appropriate payments for performance of their duties.

(d) Transactions with other related parties

The classes of non director-related parties are:

- wholly owned controlled entities; and
- directors of related parties and their director-related entities.

Transactions

There were no transactions with directors of related parties and their director-related entities. Transactions with wholly owned related parties are eliminated on consolidation.

Notes to the Financial Statements

continued

26 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Company	
	30 June 2018 \$'000	30 June 2017 \$'000
Balance sheet		
Current assets	9,334	6,962
Non-current assets	323,554	312,596
Total assets	332,888	319,558
Current liabilities	21,552	18,393
Non-current liabilities	175,320	162,267
Total liabilities	196,872	180,660
<i>Shareholders' equity</i>		
Contributed equity	113,727	112,079
Reserves	1,625	773
Retained earnings	20,664	26,045
Capital and reserves attributable to owners of Collection House Limited	136,016	138,897
Profit or loss for the year	5,221	17,804
Total comprehensive income	5,221	17,804

(b) Guarantees entered into by the parent entity

The parent entity has entered into guarantees with certain of its subsidiaries as set out in Note 23.

No liability was recognised by the parent entity or the consolidated entity in relation to this guarantee, as the fair value is immaterial.

(c) Contingent liabilities of the parent entity

Refer to Note 23 for contingent liabilities entered into by the Group. For information about guarantees given by the parent entity, please see above.

Notes to the Financial Statements

continued

27 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

	2018 %	2017 %
Parent and Ultimate Parent company:		
Collection House Limited		
Controlled entities – incorporated in Australia		
Safe Horizons Pty Ltd (formerly Cashflow Accelerator Pty Ltd)	100	100
ThinkMe Finance Pty Ltd	100	100
Collective Learning and Development Pty Ltd	100	100
CLH Legal Group Pty Ltd	100	100
Lion Finance Pty Ltd	100	100
Midstate CreditCollect Pty Ltd	100	100
CLH Business Services Pty Ltd	100	100
Collection House Limited Employee Share Plan Trust	100	100
Controlled entities – incorporated in New Zealand		
Collection House (NZ) Limited	100	100
Lion Finance Limited	100	100
Controlled entities – incorporated in Philippines		
Collection House International BPO, Inc *	100	100

* Collection House International BPO, Inc started up on 10 May 2012 and commenced business operations on 1 April 2013. While Collection House Limited holds legal and beneficial ownership of 9,995 issued shares in the subsidiary, it has beneficial ownership of 5 issued shares in the subsidiary, held on trust for Collection House Limited by each of the five appointed directors of the subsidiary, in accordance with Philippines law, representing all of the issued shares in the subsidiary currently.

28 Earnings per share

	Consolidated	
	30 June 2018 Cents	30 June 2017 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	19.2	12.8
Total basic earnings per share attributable to the ordinary equity holders of the Company	19.2	12.8
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	18.8	12.6
Total diluted earnings per share attributable to the ordinary equity holders of the Company	18.8	12.6

Notes to the Financial Statements

continued

28 Earnings per share (continued)

(c) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	26,123	17,386
	26,123	17,386
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	26,123	17,386
	26,123	17,386

(d) Weighted average number of shares used as the denominator

	Consolidated	
	30 June 2018 Number	30 June 2017 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	135,831,985	135,339,625
Adjustments for calculation of diluted earnings per share:		
Performance Rights	3,281,896	2,443,598
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	139,113,881	137,783,223

(e) Information concerning the classification of securities

(i) Performance rights

Performance rights issued to employees under the Performance Rights Plan (PRP) are considered to be potential ordinary shares and have been included at the probability rate of 100% in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per share. Details relating to the performance rights are set out in Note 29.

29 Share-based payments

(a) Performance Rights Plan

In line with the executive remuneration framework, the Board approved and adopted the Performance Rights Plan (PRP), effective on and from 1 July 2012, as a means of rewarding and incentivising its key employees.

The PRP was extended to the then Chief Executive Officer (CEO), and to eligible employees.

Future performance rights may be issued by the Board pursuant to the PRP. The board determines the value of shares granted based on the individual's performance. Future performance rights may vest at the discretion of the Board, subject to not only individual service conditions being met, but also, Company performance hurdles being achieved.

Notes to the Financial Statements

continued

29 Share-based payments (continued)

(a) Performance Rights Plan (continued)

During the reporting period ending 30 June 2018, 341,071 unlisted performance rights were issued to a number of eligible employees pursuant to the PRP. A summary of these performance rights is identified below as PR2018.

	PR2018														
Effective date	1 July 2017														
Earliest possible Vesting date	The performance rights cannot vest earlier than the Test Date ⁽¹⁾														
Performance hurdles based on the satisfactory achievement of performance conditions approved by the Board	<table> <tr> <th>Performance Conditions</th><th>% off Pool</th></tr> <tr> <td>Compound EPS growth over performance period of:</td><td></td></tr> <tr> <td>0% to 5.00%</td><td>Nil</td></tr> <tr> <td>5.01% to 7.50%</td><td>33.33%</td></tr> <tr> <td>7.51% to 10%</td><td>66.66%</td></tr> <tr> <td>More than 10.01%</td><td>100%</td></tr> <tr> <td colspan="2">Performance between 5% to 10% will be assessed on a sliding scale basis up to a maximum of 341,071 shares.</td></tr> </table>	Performance Conditions	% off Pool	Compound EPS growth over performance period of:		0% to 5.00%	Nil	5.01% to 7.50%	33.33%	7.51% to 10%	66.66%	More than 10.01%	100%	Performance between 5% to 10% will be assessed on a sliding scale basis up to a maximum of 341,071 shares.	
Performance Conditions	% off Pool														
Compound EPS growth over performance period of:															
0% to 5.00%	Nil														
5.01% to 7.50%	33.33%														
7.51% to 10%	66.66%														
More than 10.01%	100%														
Performance between 5% to 10% will be assessed on a sliding scale basis up to a maximum of 341,071 shares.															
Exercise conditions and Vesting Date	The Performance Rights Test Date will be 30 June 2020 (Test Date) after which, the Board will determine whether or not the Performance Hurdles have been achieved. As soon as reasonably practicable after each Test Date applicable to any Performance Period, the Board shall determine in respect of each eligible employee, as at that Test Date: (a) whether, and to what extent, the Performance Hurdles applicable as at the Test Date have been satisfied; (b) the number of Performance Rights (if any) that will become Vested Performance Rights as at the Test Date; and (c) the number of Performance Rights (if any) that will lapse as a result of the non-satisfaction of Performance Hurdles as at the Test Date, and shall provide written notification to each eligible employee as to that determination.														
Exercise price	Nil														
Expiry date	30 September 2020 A Performance Right lapses, to the extent it has not been exercised, on the earlier to occur of: (a) where Performance Hurdles have not been satisfied as at the relevant Test Date; (b) if an eligible employee's employment with the Company or Related Body Corporate ceases before the Vesting Date; (c) the day the Board makes a determination that the Performance Rights lapses because of breach, fraud or dishonesty; and (d) 30 September 2020.														
5 Day volume weighted average Share price	\$1.5404														

(1) Test Date: the date at which assessment against the Performance Conditions are made by the Board. For PR2018, the Test Date will be 30 June 2020.

Notes to the Financial Statements

continued

29 Share-based payments (continued)

(a) Performance Rights Plan (continued)

During the reporting period ending 30 June 2017, 3,747,550 unlisted performance rights were issued to a number of eligible employees pursuant to the PRP. A summary of these performance rights is identified below as PR2017.

	PR2017
Effective date	1 July 2016
Earliest possible Vesting date	The performance rights cannot vest earlier than the Test Date ⁽¹⁾
Performance hurdles based on the satisfactory achievement of performance conditions approved by the Board	Performance Conditions % off Pool
	Compound EPS growth over performance period of:
	0% to 5.00% Nil
	5.01% to 7.50% 33.33%
	7.51% to 10% 66.66%
	More than 10.01% 100%
	Performance between 5% to 10% will be assessed on a sliding scale basis up to a maximum of 3,747,550 shares.
Exercise conditions and Vesting Date	The Performance Rights Test Date will be 30 June 2019 (Test Date) after which, the Board will determine whether or not the Performance Hurdles have been achieved. As soon as reasonably practicable after each Test Date applicable to any Performance Period, the Board shall determine in respect of each eligible employee, as at that Test Date: (d) whether, and to what extent, the Performance Hurdles applicable as at the Test Date have been satisfied; (e) the number of Performance Rights (if any) that will become Vested Performance Rights as at the Test Date; and (f) the number of Performance Rights (if any) that will lapse as a result of the non-satisfaction of Performance Hurdles as at the Test Date, and shall provide written notification to each eligible employee as to that determination.
Exercise price	Nil
Expiry date	30 September 2019 A Performance Right lapses, to the extent it has not been exercised, on the earlier to occur of: (e) where Performance Hurdles have not been satisfied as at the relevant Test Date; (f) if an eligible employee’s employment with the Company or Related Body Corporate ceases before the Vesting Date; (g) the day the Board makes a determination that the Performance Rights lapses because of breach, fraud or dishonesty; and (h) 30 September 2019.
5 Day volume weighted average Share price	\$1.2945

(1) Test Date: the date at which assessment against the Performance Conditions are made by the Board. For PR2017, the Test Date will be 30 June 2019.

Notes to the Financial Statements

continued

29 Share-based payments (continued)

(a) Performance Rights Plan (continued)

During the reporting period ending 30 June 2016, 467,365 unlisted performance rights were issued to a number of eligible employees pursuant to the PRP. A summary of these performance rights is identified below as PR2016.

	PR2016	
Effective date	1 July 2015	
Earliest possible Vesting date	The performance rights cannot vest earlier than the Test Date ⁽¹⁾	
Performance hurdles based on the satisfactory achievement of performance conditions approved by the Board	Performance Conditions % off Pool	
	Average compound EPS growth over performance period of at least 5%	50%
	Additional amount capable of vesting on a sliding scale capped at 10% average compound EPS growth	50%
	Total	100%
Exercise conditions and Vesting Date	The Performance Rights Test Date will be 30 June 2018 (Test Date) after which, the Board will determine whether or not the Performance Hurdles have been achieved. As soon as reasonably practicable after each Test Date applicable to any Performance Period, the Board shall determine in respect of each eligible employee, as at that Test Date: (g) whether, and to what extent, the Performance Hurdles applicable as at the Test Date have been satisfied; (h) the number of Performance Rights (if any) that will become Vested Performance Rights as at the Test Date; and (i) the number of Performance Rights (if any) that will lapse as a result of the non-satisfaction of Performance Hurdles as at the Test Date, and shall provide written notification to each eligible employee as to that determination.	
Exercise price	Nil	
Expiry date	30 September 2018 A Performance Right lapses, to the extent it has not been exercised, on the earlier to occur of: (i) where Performance Hurdles have not been satisfied as at the relevant Test Date; (j) if an eligible employee’s employment with the Company or Related Body Corporate ceases before the Vesting Date; (k) the day the Board makes a determination that the Performance Rights lapses because of breach, fraud or dishonesty; and (l) 30 September 2018.	
5 Day volume weighted average Share price	\$2.2152	

(1) Test Date: the date at which assessment against the Performance Conditions are made by the Board. For PR2016, the Test Date will be 30 June 2018.

Notes to the Financial Statements

continued

29 Share-based payments (continued)

(a) Performance Rights Plan (continued)

Set out below are summaries of rights issued under the plan:

Effective Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Vested during the year	Lapsed during the year	Balance at end of the year	Vested and issuable at end of the year
			Number	Number	Number	Number	Number	Number
Company – 2018								
1 July 2016	30 September 2019	Nil	3,260,657	–	–	47,524	3,213,133	–
1 July 2017	30 September 2020	Nil	–	341,071	–	–	341,071	–
Total			3,260,657	341,071	–	47,524	3,554,204	–

Effective Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Vested during the year	Lapsed during the year	Balance at end of the year	Vested and issuable at end of the year
			Number	Number	Number	Number	Number	Number
Company – 2017								
1 July 2014	30 September 2017	Nil	556,010	–	–	556,010	–	–
1 July 2015	30 September 2018	Nil	380,452	–	–	380,452	–	–
1 July 2016	30 September 2019	Nil	–	3,621,810	–	361,153	3,260,657	–
Total			936,462	3,621,810	–	1,297,615	3,260,657	–

Fair Value of Performance Rights Issued

The assessed fair value at issue date of all performance rights is set out above. The fair value at issue date is determined based on the five day volume weighted average share price prior to issue date.

(b) Deferred Shares – CEO short-term incentive scheme

Under the Group's short-term incentive (STI) scheme, the CEO is entitled to receive 60% of his annual STI achieved in cash, and 40% in the form of rights to deferred shares of Collection House Limited, issuable at the end of his contract period, subject to him being employed by the Group at the end of the contract period. The rights will automatically convert into one ordinary share each on vesting, at an exercise price of nil. The CEO will not receive dividends, or be entitled to vote in relation to the deferred shares during the vesting period. IF the CEO ceases to be employed by the Group within this period, the rights will be forfeited, except in limited circumstances that may be approved by the Board at their discretion.

The number of rights to be granted is determined based on the amount of the STI awarded divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange over the five trading days preceding the date of issue.

The maximum value of deferred shares issuable in relation to 30 June 2018 was \$144,468. The Board has determined that the CEO is entitled to 80% of the maximum value, and shares to the value of \$115,574 will be issuable at the end of the CEO's employment contract.

(c) Employee Share Plan

Last year, the Group introduced the Collection House Limited Exempt Employee Share Plan, providing eligible employees with an opportunity to acquire a beneficial ownership of shares in the Company. The Plan is administered by CPU Share Plans Pty Limited. This Trust is consolidated in accordance with Note 1 (b) and Note 27.

All Australian and New Zealand resident employees were entitled to participate in the Plan subject to meeting certain eligibility criteria. Employees eligible to participate in the Group's Performance Rights Plans detailed at (a) above where not eligible to participate in the Plan. Eligible employees may elect not to participate in the Plan.

Shares issued by the Trust to employees are acquired on-market prior to issue. Shares held by the Trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements (refer Note 19).

Under the Plan, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in Collection House Limited annually for no cash consideration. The number of shares issued to participants is the offer amount divided by the average price of the shares acquired on the Australian Securities Exchange during the on-market purchase period. The shares are recognised at the closing share price on the grant date, as an issue of treasury shares, and as part of employee benefit costs in the period the shares are granted.

Notes to the Financial Statements

continued

29 Share-based payments (continued)

(c) Employee Share Plan (continued)

Shares issued under the scheme may not be sold until the earlier of three years after issue, or cessation of employment by the Group. In all other respects, shares rank equally with other fully paid ordinary shares on issue.

The total number of shares granted to participating employees on 26 September 2017 was 177,832. The average market price of the shares issued was \$1.20, and the shares had a grant date fair value of \$1.33.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Performance rights plan	599	313
Deferred shares – CEO short-term incentive	80	106
Employee share plan	237	194
Total expenses arising from share-based payment transactions	916	613

30 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	30 June 2018 \$'000	30 June 2017 \$'000
Profit for the year	26,123	17,386
Depreciation and amortisation	7,439	6,759
Amortisation of purchased debt ledgers	51,807	39,576
Asset write offs	211	1,800
Non-cash employee benefits expense – share-based payments	916	613
Provision for doubtful debts	83	(12)
Other non-cash expenses	124	1,649
Borrowing costs	1,452	1,323
Interest paid	4,326	4,039
<i>Change in operating assets and liabilities</i>		
(Increase) / decrease in trade debtors and bills of exchange	(1,913)	(1,002)
(Increase) / decrease in sundry debtors	(6,638)	480
(Increase) / decrease in other non-current assets	(2,988)	(2,567)
Increase / (decrease) in trade creditors	2,695	(3,126)
Increase / (decrease) in sundry creditors and accruals	533	(2,815)
Increase / (decrease) in current tax liability	2,211	(2,839)
Increase / (decrease) in deferred tax liabilities	(518)	761
Net cash inflow (outflow) from operating activities	85,863	62,025

31 Events occurring after the reporting period

(a) Dividend

A fully franked final dividend of 3.9 cents, totalling \$5,349 million, has been declared, payable on 26 October 2018. No provision has been raised in these accounts for this amount.

Directors' Declaration

for the year ended 30 June 2018

In the directors' opinion:

- (a) the financial statements and notes set out on pages 31 to 78 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 consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date,
- (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, and

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 chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Leigh Berkley
Chairman

Brisbane
23 August 2018

Independent Auditor's Report

to the Members



Independent Auditor's Report

To the shareholders of Collection House Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Collection House Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Balance Sheet as at 30 June 2018;
- Consolidated Income statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Value of the Purchased Debt Ledger portfolio
- Value of intangible computer software

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Liability limited by a scheme approved under Professional Standards Legislation.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Independent Auditor's Report

continued



Value of the Purchased Debt Ledger portfolio (\$311,855,000)

Refer to Note 10 – Purchased Debt Ledgers

The key audit matter

The Purchased Debt Ledgers (PDLs) portfolio recognised by the Group consists of a portfolio of credit impaired receivables. We consider this a key audit matter given the:

- significance of the PDLs to the Company's financial position;
- valuation of PDLs is a complex area and we are required to exercise a high level of judgement in considering the recoverability of the carrying value of PDLs; and
- the company has invested considerable time and effort in developing a new PDL impairment model during the year.

The Group utilises a PDL impairment model for the purpose of calculating the present value of the PDLs. Under AASB 139 *Financial Instruments: Recognition and Measurement* a PDL is considered to be impaired if the carrying value of the PDL exceeds the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The PDL impairment model incorporates a number of judgements such as the following specific recoverability characteristics of PDLs:

- age and type of debt (i.e. utilities, credit card, personal loan);
- payment history and current status of customers;
- historical debt collection statistics, effective interest rate and amortisation rate;
- future collection estimates generated using a combination of both internal and external information; and
- estimated term to maturity.

We focused on the significant forward-looking assumptions applied in the impairment model, including the Group's assumptions at which expected cash flows will be recovered from customers, the "amortisation rate" and implicit interest rate ("effective interest rate").

We involved our specialists in the areas of valuation, model development and integrity and senior audit team members with the assessment of this Key Audit Matter.

How the matter was addressed in our audit

Working with our valuation and modelling specialists, our audit procedures included:

- Challenging assumptions used by the Group in determining the value of the PDL portfolio, with a view to identifying areas of management bias. Our challenge of key assumptions was based on:
 - the accuracy of previous estimates applied by the Group in the PDL model, including debt collection forecasting, effective interest rate, amortisation rate, and estimated PDL life, when compared to actual historical data;
 - identify unusual ratios and trends in key estimates when compared to historical, current and forecast economic conditions;
 - analysing the effective interest rate applied by the Group through reassessing the effective interest rate of a selection of PDLs;
 - assessing the amortisation rate and forecast collection estimates by performing ratio analysis and stress testing.
 - validating, where appropriate, key assumptions to industry peers
- For a sample of PDLs, compared their classification type to the underlying account history and characteristics.
- Testing key internal controls in the debt collection process, including the collection call centre process and related information technology system controls.

Independent Auditor's Report

continued



Value of intangible computer software (\$12,806,000)

Refer to Note 13 – Intangible Assets

The key audit matter	How the matter was addressed in our audit
The valuation of Software is a key audit matter due to the: • significance of Software carried on the balance sheet; and • nature of Software carried on the balance sheet which comprises predominantly in-house developed Software. Auditing in-house developed software requires a greater level of audit effort to evaluate the Group's application of the requirements of accounting standard AASB 138 <i>Intangible Assets</i>. We considered compliance with the accounting standards for the following significant assumptions made by the Group: • Capitalisation of relevant costs – The Group's estimation of the value of intangible computer software is based on actual costs incurred which comprise both external costs and internal staff salary costs. In capitalising these costs, the Group has performed an analysis to determine that the resulting computer software meets the definition of an Intangible asset in accordance with the accounting standards. This assessment is subjective in nature. We specifically focused on the realisation of future economic benefits and the assumptions and methodologies used in recording and capitalising of staff salaries. • Assessment of the software's expected useful life – After development, the computer software is 'in-use', the Group estimates the useful life of the computer software and amortises it over this period. This assessment is based on the intended use of the asset. This can be judgemental and dependent upon future events, including advances in technology. We focused on the evidence for the intended use. We looked for consistency of this with the application of the useful life period, the utilisation of the computer software, and the analysis of impairment indicators performed by the Group	Our audit procedures included: • Evaluating the Group's accounting policy to recognise and capitalise software development costs using the criteria in accounting standard. • Testing key internal controls to assess the Group's compliance with the accounting policy. This included testing the Group's review and authorisation of internal and external costs to be capitalised to an in-house software development project. • Assessing the Group's compliance with the accounting policy for a sample of the costs capitalised during the period. For this sample we also challenged the Group on the nature and appropriateness of the costs capitalised. This included testing costs capitalised back to underlying documentation, such as payroll records for employee wages and invoices for external costs. • Challenging the reasonableness of the remaining useful lives of software developments through enquiry and assessment of the Group's strategies to determine their future application and usage. • Assessing the adequacy of the Group's disclosures in relation to Software costs and the current year amortisation and write-offs. • Including the value of Intangible computer Software in the 'value in use' impairment testing performed.

Independent Auditor's Report

continued



Other Information

Other Information is financial and non-financial information in Collection House Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, including the Remuneration Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar1.pdf. This description forms part of our Auditor's Report.

Independent Auditor's Report

continued



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Collection House Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited Sections A to J of the Remuneration Report which is contained in the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Scott Guse

Partner

Brisbane

23 August 2018

Shareholder Information

The shareholder information set out below was applicable as at 15 October 2018.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Class of equity security

Ordinary shares

	Holders	Shares
1 - 1,000	3,726	2,215,478
1,001 - 5,000	7,031	19,141,719
5,001 - 10,000	2,357	17,443,743
10,001 - 100,000	1,939	44,151,167
100,001 and over	79	54,199,951
Total	15,132	137,152,058

There were 740 holders of less than a marketable parcel of 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:

Name	Units	% of issued capital
1. Ankla Pty Ltd	12,711,134	9.27
2. HSBC Custody Nominees (Australia) Limited	6,090,000	4.44
3. JP Morgan Nominees Australia Limited	5,505,511	4.01
4. Citicorp Nominees Pty Limited	4,510,693	3.29
5. National Nominees Limited (DB A/C)	2,074,903	1.51
6. Bainpro Nominees Pty Limited	1,844,665	1.34
7. BNP Paribas Nominees Pty Ltd (DRP)	1,288,885	0.94
8. Ecapital Nominees Pty Limited	1,200,000	0.87
9. Skylevi Pty Ltd (Superfun Super Fund A/C)	1,033,951	0.75
10. Mr Frederick Benjamin Warmbrand (FB & LJ Warmbrand Super A/C)	1,027,632	0.75
11. Bond Street Custodians Ltd (Macquarie Smaller Co's A/C)	963,815	0.70
12. Poltick Pty Ltd	932,896	0.68
13. Sunstar Australia Pty Ltd	731,777	0.53
14. Durbin Superannuation Pty Ltd (Durbin Family S Fund A/C)	642,325	0.47
15. Kemp SMSF Pty Ltd (Kemp Super Fund A/C)	600,000	0.44
16. HSBC Custody Nominees (Australia) Limited – A/C 2	541,050	0.39
17. BNP Paribas Nominees Pty Ltd (IB AU Noms Retail Client DRP)	539,320	0.39
18. Rollee Pty Ltd	500,000	0.36
19. Brispot Nominees Pty Ltd (House Head Nominee A/C)	495,602	0.36
20. National Nominees Limited (DB A/C)	474,938	0.35
Total	43,709,097	31.84

Shareholder Information

B. Equity security holders (continued)

Unquoted equity securities

Details of these Performance Rights are set out at Note 29 of the financial statements.

Effective Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Vested during the year	Lapsed during the year	Balance at end of the year	Vested and issuable at end of the year
			Number	Number	Number	Number	Number	Number
Company – 2018								
1 July 2016	30 September 2019	Nil	3,260,657	–	–	47,524	3,213,133	–
1 July 2017	30 September 2020	Nil	–	341,071	–	–	341,071	–
Total			3,260,657	341,071	–	47,524	3,554,204	–

Details of the Indeterminate Rights are set out in page 16 of the financial statements.

	Indeterminate Rights	
	Number held	Number of holders
Mr Anthony Rivas		
FY2017	71,409	
FY2018	77,584	
Total	148,993	1

Restricted securities

All issued shares in Collection House Limited are quoted on the ASX and there are no shares subject to escrow or other regulated restrictions.

C. Substantial holders

Substantial shareholders of ordinary shares in the Company are set out below:

Holder	Units	% of issued capital
1. Ankla Pty Ltd, Poltick Pty Ltd, Newcastle Pty Ltd, Skylevi Pty Ltd (Superfun Superfund), Sunstar Australia Pty Ltd, Mr Lev Mizikovsky, Miss Manlika Winothai, Mr Joseph Kevin Mizikovsky and Izmo Pty Ltd (The Simiz a/c) (combined shareholdings)	15,929,541	11.61
2. HSBC Custody Nominees (Australia) Limited	6,090,000	4.44

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) 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.

(b) Performance rights

No voting rights.

(c) Indeterminate rights

No voting rights.

Corporate Directory

Directors

Leigh Berkley	Chair (Non-Executive) (appointed 29 November 2017)
Michael Knox	Director (Non-Executive)
Anthony Rivas	Managing Director and Chief Executive Officer (Executive) (appointed 24 November 2017)

Company Secretary

Kristine May

Executive Management Team

Anthony Rivas	Managing Director and Chief Executive Officer
Kristine May	Chief Financial Officer & Company Secretary
Anand Adusumilli	Chief Data Scientist (appointed 26 July 2017)
Jonathan Idas	Chief Legal Officer (appointed 6 September 2017)

Main contact

Kristine May
Company Secretary

T: +61 7 3292 1015
E: Kristine.May@collectionhouse.com.au

Principal registered office in Australia

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Newstead Qld 4006

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Share register

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne Vic 3000

T: 1300 850 505
F: +61 7 3237 2152
W: www.computershare.com.au

Auditor

KPMG
71 Eagle Street
Brisbane Qld 4000

Stock exchange listing

Collection House Limited shares are listed on the Australian Securities Exchange (ASX). The home exchange is Sydney.

ASX code

CLH

Investor and client presentation

The Group's latest investor and client presentation is available at www.collectionhouse.com.au.



HEAD OFFICE:

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