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Collection House Limited
ASX Half Year information - 31 December 2020

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
30 June 2020 Annual Report

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Collection House Limited
For the half-year ended 31 December 2020
(Previous corresponding period: Half-year ended 31 December 2019)

Results for announcement to the market
31 December 2020

		%		$'000
Revenue from continuing operations	Down	46.6%	to	46,227
Profit / (loss) from continuing activities after tax attributable to members *(Appendix 4D item 2.2)*	Up	79.8%	to	(9,550)
Net profit / (loss) for the period attributable to members *(Appendix 4D item 2.3)*	Up	79.8%	to	(9,550)

Dividends / distributions *(Appendix 4D item 2.4)*	Amount per security	Franked amount per security
Current period		
Final dividend (year ended 30 June 2020)	N/A	N/A
Interim dividend (year ended 30 June 2021)	N/A	N/A
Previous corresponding period		
Final dividend (year ended 30 June 2019 - paid 25 October 2019)	4.1	4.1
Interim dividend (year ended 30 June 2020)	N/A	N/A

Key Ratios	**2020**	2019
	December	December
Basic earnings/(Loss) per share (cents)	**(6.8)**	(33.8)
Net tangible assets per share (cents)	**(16.79)**	118.14

Record date for determining entitlements to the interim dividend	N/A
Payment date for interim dividend	N/A

Explanation of results *(Appendix 4D item 2.6)*
Refer to Directors’ Report - Review of operations and financial results.

Explanation of dividends *(Appendix 4D item 2.6)*
Refer to Directors Report - Dividends.

Dividend Reinvestment Plans (*Appendix 4D item 6)*
Refer to Directors Report - Dividends.

DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Collection House Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

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:

Leigh Berkley	Chairman (Non-Executive)
Michael Knox	Director (Non-Executive)
Sandra Birkensleigh	Director (Non-Executive)
Catherine McDowell	Director (Non-Executive)

PRINCIPAL ACTIVITIES AND KEY CHANGES DURING THE SIX MONTH PERIOD

The Group provides debt collection and receivables management services from offices in Australia, New Zealand and the Philippines.

During the period, the Group disposed of the majority of its purchased debt ledger ("PDL") assets, the proceeds of which were applied in debt reduction. The Group retains its best-in-class systems, processes and people and applies those capabilities in servicing its large portfolio of clients through contingent collection arrangements.

The Group retains a small but profitable portfolio of PDL assets in New Zealand and intends to participate in future PDL purchasing through a co-investment program which is currently being negotiated.

The recapitalisation puts the Company in a financial position from which it can drive growth from its contingent collections business and re-build its presence in the purchased debt market over time.

REVIEW OF OPERATIONS AND UNDERLYING FINANCIAL RESULTS FOR THE SIX MONTH PERIOD

The Group's financial performance for the six month period, although subdued, was an improvement on the previous corresponding period which was impacted by substantial impairment charges, reflective of fundamental structural change within the business. The six month period saw significant refinement in group strategy with fundamental changes to the Company's capital structure. During the period the Company also contended with difficult trading conditions as the economic effects of COVID-19 continued to impact the Company's customer base with flow-on effects to both service fee income and cash collections from PDL assets in all of its operating jurisdictions.

Key elements of the half-year result were:

- Consolidated Net Loss after Tax (NLAT) of $9.6 million (31 December 2019: NLAT of $47.3 million).
- Loss per share of -6.8 cents (1H20: Loss per share -33.8 cents).
- No asset impairment adjustments were recognised during the period as the Company's purchased debt ledger assets had already been adjusted to their recoverable amount in its 30 June 2020 financial statements.
- Earnings for the half included one-off non-recurring restructuring and transaction costs of $8.0 million.
- Closing gross assets of $196.1 million (30 June 2020: $343.9 million) and net assets of $62.0 million (30 June 2020: $73.1 million).
- Gross PDL asset sale proceeds of $157.7 million received and applied in immediate reduction to senior debt.
- Senior debt reduced to $61.6 million and refinanced for a further three years.

The first quarter of FY21 includes profit contributions from the Collection Services and Purchased Debt segments in accordance with the Company's historical operating model. The PDL sale transaction was effective from 1 October 2020 and as a result, interest income was lower on the previous corresponding period, and the Group's PDL income was predominately service fee income during the second quarter. Overall, revenue for the Collection Services business was depressed as a result of client imposed restrictions of the Company's collection activities in light of the need to support customers with hardship relief packages.

Variable costs reduced substantially during the second quarter as activity in the Purchased Debt segment reduced and overhead cost saving initiatives were implemented across the back office. This will create a more sustainable and agile cost structure as the business returns to growth in coming periods.

Although the Group's economic performance for the period was subdued, the Group executed significant strategic change initiatives across the entire business, which positions the business for a return to sustainable growth moving forward.

Key Financial Results - by Segment - Reviewed ($'000)

	Collection Services		Purchased Debt		Consolidated	
	1H 2021 $ '000	1H 2020 $ '000	1H 2021 $ '000	1H 2020 $ '000	1H 2021 $ '000	1H 2020 $ '000
Revenue						
Sales	28,864	35,044	88	125	28,952	35,169
Interest and call option income	-	-	16,567	51,008	16,567	51,008
Other – Gain on sale	-	-	238	-	238	-
Total segment revenue	28,864	35,044	16,893	51,133	45,757	86,177
All other segment revenue					470	308
Consolidated revenue	28,864	35,044	16,893	51,133	46,227	86,485
Results						
Segment result	2,880	4,563	708	(61,837)	3,588	(57,274)
Interest expense & borrowing costs					(4,110)	(5,136)
All other segment expenses					(13,258)	(5,039)
Profit/(Loss) before income tax					(13,780)	(67,449)
Income tax expense					4,230	20,116
Profit/(Loss) for the half-year					(9,550)	(47,333)

Collection Services

The Collection Services business collects debt and provides customer service and hardship assistance on behalf of clients (banks, public utilities, government agencies, etc.). The fees received for these services were approximately $65 million of revenue for the 2020 financial year and for this half were $28.9 million. The Company's clients continue to be conservative around collection activity as they consider the ongoing impacts of COVID-19 on their customers and provide extensive support to those customers who applied for hardship assistance. Collection embargoes have extended beyond initial expectations and collection activity in the public sector portfolio was particularly subdued.

COVID-19 impacted operations in New Zealand and the Philippines, but the Company's flexible systems and pro-active management approach to the crisis saw resources efficiently re-deployed through remote working arrangements. Pleasingly the New Zealand market has recovered well, and opportunities are now presenting themselves in the contingent collections space. The Philippines operation remains strategically important to the Company's overall service delivery model, and the experienced and capable team continues to service international clients from that location.

Notwithstanding the difficult economic conditions, the Company used the period to refine its client and customer service offerings, and carefully re-evaluate its cost model. The Company is well positioned to support new and existing clients to manage their customers in what the Company expects to be challenging credit market conditions for consumers over the short to medium term.

Purchased Debt

The purchased debt business reported segment revenue of $16.9 million reflecting normal trading performance for quarter one and service fee income in quarter two. Notwithstanding, this was a weak operating quarter when compared with previous corresponding periods, again largely driven by customer behaviour linked to COVID-19.

On 23 December 2020, the Group concluded a sale of its Australian PDL assets (with effect from 1 October 2020). The Company retains a small profitable portfolio of PDL assets in New Zealand which performed in line with forecast during the period.

The sale of the Group's Australian PDL portfolio puts it in a financial position from which it can re-build its presence in the purchased debt market in the medium term. Under its new strategy, the Group is seeking to grow its purchased debt capability through a co-investment partnership which will see Collection House put less of its own capital at risk but create a valuable revenue stream through applying industry leading collection capabilities.

The refinancing process has allowed the Company to build relationships with a number of highly reputable, potential co-investment partners who are looking for sophisticated servicing partners in the Australian and New Zealand markets. The Company is confident of finalising a partnering arrangement in the near term that will enable it to appropriately pursue PDL purchasing opportunities, but with a lower level of balance sheet risk.

Cost Structure

Direct collection costs decreased on the previous corresponding period, reflective of both strategy changes implemented in FY20, but also generally lower levels of collection activity period on period. Employee costs were lower when compared with the prior year as a result of Job Keeper subsidy income that has been offset directly against employee costs. In addition, the company has proactively reduced resourcing levels across the entire business in line with structural changes which occurred during the period.

Total employee numbers (Full Time Equivalents - FTE) across Australia and New Zealand at 31 December 2020 stood at 740, compared to 828 in the previous corresponding period as at 31 December 2019.

A comprehensive review of the Company's support costs structure was also completed during the period which will result in a permanent reduction to its cost structure on a normalised basis moving forward.

Capital Management

The Company now has a stable capital structure which protects the core of its business and provides a base upon which it can grow its core collection services capability over the coming years. Based on its operating plan, the business has working capital funding for the next 18 months, which provides it with time to grow its services business and implement a PDL co-investment partnership.

Coincident with completion of the PDL sale transaction, the Company refinanced its remaining senior debt on the following basis:

- $20m Fully amortising Term Loan Facility (Facility A) with interest payable on a monthly basis and scheduled quarterly repayments over a three-year term.
- $41.6m Term Loan Facility (Facility B) with a term of three years, capitalising interest, and cash sweep payments at times when the Group's cash balance is above a level agreed with the lenders.
- Bank Guarantee Facility of $8.6m which supports the Company's rental bond obligations; and.
- a covenant compliance package focussed on EBITDA to leverage ratios.

As a part of the PDL sale transaction, the purchaser has provided a loan of $15m with a maturity of two years with interest capitalised during the term.

The Group's total assets at 31 December 2020 were $196.1 million, down 42% on 30 June 2020 primarily as a consequence of the PDL asset sale The Group reported a surplus in net current assets of $19.9 million as at 31 December 2020, with the classification of the Group's total borrowings reflecting a more standard maturity profile.

Outlook

The complexion of credit markets is changing, reflecting feedback from the Financial Services Royal Commission and in response to the long term economic impacts of COVID-19 on the global economy. During the period, Collection House has worked with its clients to pivot traditional services and deliver greater hardship assistance to those most vulnerable and in need.

CLH believes there is an opportunity to differentiate itself through an improved service model which is focused on better customer outcomes and underpinned by a solid governance framework and innovative technology which enhances customer experience and improves operating efficiency.

The significant organisational changes that have occurred during the period, in particular the decision to sell assets to reduce debt, have adversely impacted short term earnings and cashflow. However, the Company has now largely eliminated the financial risk associated with its historical purchased debt assets, substantially reduced its debt levels, and greatly simplified its business model. This simplification allows the Company to focus on providing the highest standard of collection services to clients through a values aligned, customer centric collections approach.

The Company believes it is well positioned to capitalise on the market opportunities ahead of it and is confident that it has a sound customer focussed growth strategy which it can execute over coming periods.

Key Risks

Key risks to the execution of the Company's revised strategy are:

- Impacts of COVID-19 on general growth in the credit sector and limitations on efficiently conducting customer engagement to drive collection activity.
- Changes to regulations governing collection activities or breaching compliance obligations.
- Failure to retain existing and acquire new Collection Services clients.
- An inability to agree acceptable terms with a co-investment partner for debt purchasing or inadequate supply of purchased debt at acceptable prices to create a sustainable business.
- Disruption to systems and operation due to cyber attack or privacy breaches; and
- Failure to maintain appropriate level of investment in information systems to improve customer experience.

EARNINGS PER SHARE AND DIVIDENDS

Basic Loss per share for the financial half year was -6.8 cents (31 December 2019 was -33.8 cents).

Because of the poor economic performance for the period, no dividends were paid or declared during the period or subsequent to period end (31 December 2019 – nil).

The Group's ability to recommence an appropriate dividend payment policy is governed by the new arrangements with its lenders and is primarily linked to its ongoing financial performance and available cash after meeting its loan obligations.

MATTERS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The majority of proceeds from the sale of the Company's PDL assets were received on 31 December 2020. However, further proceeds were received after 31 December 2020 as additional vendor consents were received. Post balance date, an additional $6.8m of proceeds has been applied to reduce the total senior debt facility to $54.3m ($61.6m at 31 December 2020).

Other than the matters discussed herein, there are no other matters or circumstances that have arisen since 31 December 2020 up until the date of this report that have significantly affected, or may significantly affect:

(a) the Group's operations in future financial years,

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

PROCEEDINGS

On 15 March 2019, the Group was provided with a copy of a claim and statement of claim, which had been filed in the Supreme Court of Queensland on the same date. The claim for damages is for $2,800,000 and proceedings are still being defended by the Group.
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.*

ROUNDING OF AMOUNTS

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) 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.

AUDITOR

The auditors have provided the Board of directors with a signed Independence Declaration in accordance with section 307C of the *Corporations Act 2001*. This declaration is attached to the Directors' report.

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

COLLECTION HOUSE LIMITED

Leigh Berkley
Chairman
23 February 2021

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 review of Collection House Limited for the half-year ended 31 December 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Ben Flaherty

Partner

Brisbane

23 February 2021

	Notes	Half-year Consolidated **31 December 2020 $'000**	 31 December 2019 $'000
Revenue	4	**46,227**	86,485
Revenue from continuing operations		**46,227**	86,485
Direct collection costs		**(8,638)**	(13,192)
Employee expenses		**(25,514)**	(31,881)
Impairment on PDL Assets		**-**	(89,855)
Depreciation and amortisation expense		**(4,832)**	(5,316)
Operating lease rental expense		**(386)**	(485)
Restructuring expenses		**(7,985)**	(63)
Other expenses		**(8,541)**	(8,006)
Finance costs		**(4,111)**	(5,136)
Profit/(Loss) before income tax		**(13,780)**	(67,449)
Income tax benefit/(expense)	5	**4,230**	20,116
Profit/(Loss) from continuing operations for the half-year		**(9,550)**	(47,333)
Profit/(Loss) is attributable to:			
Equity members of Collection House Limited		**(9,550)**	(47,333)
		(9,550)	(47,333)

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share	14	**(6.8)**	**(33.8)**
Diluted earnings/(loss) per share	14	**(6.8)**	**(33.8)**

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

Collection House Limited
Statement of comprehensive income
For the half-year ended 31 December 2020

	Half-year Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Profit/(Loss) for the half-year	**(9,550)**	(47,333)
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Fair Value adjustment – Equity instrument	**(1,352)**	-
Exchange differences on translation of foreign operations	**(252)**	828
Other comprehensive income for the half-year, net of income tax	**(1,604)**	828
Total comprehensive income for the half-year	**(11,154)**	(46,505)
Total comprehensive income for the half-year is attributable to:		
Equity members of Collection House Limited	**(11,154)**	(46,505)
	(11,154)	(46,505)

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

Collection House Limited
Balance sheet
As at 31 December 2020

	Notes	Consolidated 31 December 2020 $'000	Consolidated 30 June 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**33,954**	9,656
Receivables		**8,572**	13,311
Purchased debt ledgers	6	**6,079**	172,541
Current tax asset		**19,430**	5,383
Other current assets		**141**	222
Total current assets		**68,176**	201,113
Non-current assets			
Purchased debt ledgers	6	**11,932**	12,187
Equity investments	8	**3,516**	4,868
Property, plant and equipment		**24,893**	28,297
Intangible assets	7	**30,155**	33,011
Deferred tax asset		**55,647**	63,732
Receivables		**1,813**	740
Total non-current assets		**127,956**	142,835
Total assets		**196,132**	343,948
LIABILITIES			
Current liabilities			
Payables		**18,416**	13,212
Borrowings	9	**17,508**	214,857
Provisions		**4,454**	4,419
Other financial liabilities		**7,898**	7,525
Total current liabilities		**48,276**	240,013
Non-current liabilities			
Borrowings	9	**59,058**	-
Provisions		**251**	142
Other financial liabilities		**26,582**	30,674
Total non-current liabilities		**85,891**	30,816
Total liabilities		**134,167**	270,829
Net assets		**61,965**	73,119
EQUITY			
Contributed equity	10	**119,567**	119,567
Reserves		**(5,783)**	(4,179)
Retained earnings/(Accumulated losses)		**(51,819)**	(42,269)
Total equity		**61,965**	73,119

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

Consolidated	**Contributed equity**	**Reserves**	**Retained earnings / (Accumulated losses)**	**Total equity**
	Attributable to members of Collection House Limited			
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 July 2019*	**116,413**	**365**	**112,370**	**229,148**
Adjustment on application of AASB 16 Leases	-	-	(3,798)	(3,798)
Adjusted balance at 1 July 2019	**116,413**	**365**	**108,572**	**225,350**
Loss for the year	-	-	(47,333)	(47,333)
Other comprehensive income	-	828	-	828
Total comprehensive income for the year	**-**	**828**	**(47,333)**	**(46,505)**
Transactions with owners in their capacity as owners:				
Contributions of equity net of transaction costs	1,576	-	-	1,576
Acquisition of deferred shares	(315)	-	-	(315)
Release of Treasury Shares	109	(109)	-	-
Release of Performance Rights Plan	1,416	(1,416)	-	-
Employee share rights - value of employee services	-	(11)	-	(11)
Dividends provided for or paid	-	-	(5,764)	(5,764)
	2,786	(1,536)	**(5,764)**	(4,514)
Balance at 31 December 2019	**119,199**	**(343)**	**55,475**	**174,331**
Balance at 1 July 2020*	**119,567**	**(4,179)**	**(42,269)**	**73,119**
Profit/(Loss) for the half-year	-	-	(9,550)	(9,550)
Other comprehensive income	-	(1,604)	-	(1,604)
Total comprehensive income for the half-year	**-**	**(1,604)**	**(9,550)**	**(11,154)**
Transactions with owners in their capacity as owners:				
Contributions of equity net of transaction costs	-	-	-	-
Acquisition of deferred shares	-	-	-	-
Release of treasury shares	-	-	-	-
Release of Performance Rights Plan	-	-	-	-
Employee share rights - value of employee services	-	-	-	-
Dividend provided for or paid	-	-	-	-
	-	-	-	-
Balance at 31 December 2020	**119,567**	**(5,783)**	**(51,819)**	**61,965**

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

	Notes	Half-year Consolidated 31 December 2020 $'000	31 December 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		65,316	101,475
Payments to suppliers and employees (inclusive of goods and services tax)		(43,982)	(60,313)
		21,334	41,162
Income taxes paid		(1,732)	(8,680)
Net cash inflow from operating activities		19,602	32,482
Cash flows from investing activities			
Payments for property, plant and equipment		(4)	(381)
Payments for purchased debt ledgers		(5,422)	(28,836)
Proceeds from sale of purchased debt ledgers		157,698	-
Payments for intangible assets		(232)	(1,626)
Net cash (outflow) from investing activities		152,040	(30,843)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	1,261
Cash based Security Deposit		(1,187)	-
Payment of lease liabilities		(4,094)	(2,686)
Proceeds from borrowings		15,000	6,000
Repayment of borrowings		(153,891)	(8,381)
Borrowing costs		(108)	(103)
Interest paid		(3,064)	(4,173)
Dividends paid to Company's shareholders	11	-	(5,764)
Net cash (outflow) from financing activities		(147,344)	(13,846)
Net increase (decrease) in cash and cash equivalents		24,298	(12,207)
Cash and cash equivalents at the beginning of the half-year		9,656	1,596
Effects of exchange rate changes on cash and cash equivalents		-	124
Cash and cash equivalents at end of year		33,954	(10,487)
Cash at bank and on hand		33,954	742
Bank Overdraft		-	(11,229)
Cash and cash equivalent at end of year		33,954	(10,487)

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

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

These financial statements are for the consolidated entity, consisting of Collection House Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2020 (the Group).

These interim financial statements were authorised for issue on 23 February 2021 by the directors of the Company.

1 Basis of preparation of half-year report

This consolidated interim financial report for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for year ended 30 June 2020.

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in these interim financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The accounting policies adopted in these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period.

a. Going Concern

The Group recorded a surplus in net current assets of $19.9 million at 31 December 2020 and the financial statements have been prepared on a going concern basis as the Directors believe the Group will be able to pay its debts as and when they fall due and payable.

The Directors note that the recapitalisation process was completed on 23 December 2020, the PDL sales proceeds have been applied to repayment of debt, ongoing loan facilities have been agreed with the lenders and Credit Corp Group.

Now that the recapitalisation process has reached an outcome, the Group's ability to continue as a going concern is critically dependent on implementing its strategic plan and meeting its targets. The Directors believe that the Group will be able to continue as a going concern based on cash flow forecasts which indicate the Group is able to pay its debts as and when they fall due under a range of risk adjusted scenarios. Key assumptions used in these cash flow forecasts and the assessment of the Group's ability to continue as a going concern include:

- enhancing the commission collections side of the Group's business and retention of key clients.
- reducing costs to a sustainable level.
- close management of its financial position and performance to ensure compliance with relevant financial covenants imposed by its lenders under the terms of its on-going funding facility.
- the performance of the PDL assets retained by the Group remaining in line with the Group's expectation of future expected cash collections.
- managing any ongoing impact from economic uncertainty as a result of COVID-19; and
- the progressive build-up of its PDL Asset book.

While the Directors are encouraged that the performance of the Group's continuing operations is improving from experience during the 2020 year and 2021 year to date, the improving but still existing macro-economic challenges and uncertainties from COVID-19 may impact on the Group's ability to execute its strategic plan and achieve the key assumptions outlined above. As a result, these conditions give rise to a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business at the stated amounts in the financial statements.

b. Changes in accounting policies

There have been no changes in accounting policies.

2 Use of judgements and estimates

In preparing these interim financial statements management has made judgements, estimates, and assumptions that affect the application of accounting policies, and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The Group has been impacted by both the societal and economic impact of the COVID-19 virus. The longer term impact of the COVID-19 pandemic on the Australian economy and the Group remains uncertain. The severity of its impact will depend on its duration, customer behaviour, the success of the Government stimulus initiatives, and the general Australian economic recovery. Thus, COVID-19 requires focussed considerations and estimations, which has an impact on the valuation of the Group's assets and liabilities.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended 30 June 2020.

3 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. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and determining the allocation of resources.

The Group 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
The collection of debts from client ledgers acquired by the Group or on behalf of another debt purchasing entity/partner.

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

(b) Segment information provided to the Board of Directors

31 December 2020	Collection services $'000	Purchased debt $'000	All other segments $'000	Consolidated $'000
Segment revenue				
Sales to external customers	28,714	6	155	28,875
Other revenue	148	82	315	545
Intersegment sales	2	-		2
Total sales revenue	28,864	88	470	29,422
Interest and call option income	-	16,567	-	16,567
Other - Gain on sale	-	238	-	238
Total segment revenue	**28,864**	**16,893**	**470**	**46,227**
Segment result	**2,880**	**708**	**(13,258)**	**(9,670)**
Interest expense and borrowing costs				(4,110)
Profit before income tax				(13,780)
Income tax (expense)/benefit				4,230
Profit/(Loss) for the half-year				**(9,550)**
Segment assets	117,596	75,969	2,567	196,132
Segment liabilities	89,297	45,775	(905)	134,167

31 December 2019	Collection services $'000	Purchased debt $'000	All other segments $'000	Consolidated $'000
Segment revenue				
Sales to external customers	34,781	4	-	34,785
Other revenue	158	121	308	587
Intersegment sales	105	-		105
Total sales revenue	35,044	125	308	35,477
Interest and call option income	-	51,008	-	51,008
Total segment revenue	**35,044**	**51,133**	**308**	**86,485**
Segment result	**4,563**	**(61,837)**	**(5,039)**	**(62,313)**
Interest expense and borrowing costs				(5,136)
Profit before income tax				(67,449)
Income tax (expense)/benefit				20,116
Profit/(Loss) for the half-year				**(47,333)**
Segment assets *	85,600	367,108	(1,818)	450,890
Segment liabilities *	71,022	208,737	(3,200)	276,559

** The segment asset and liability distribution within the December 2020 segment information has been amended to reflect the impact of the PDL asset sale.*

4 Revenue

	Half-year Consolidated 31 December 2020 $'000	31 December 2019 $'000
Commission	**28,877**	34,890
Interest income	**16,567**	44,664
Call option income	**-**	6,344
Gain on Disposal of Purchased Debt Ledgers	**238**	
Other revenue	**545**	587
Revenue from continuing operations	**46,227**	86,485

5 Income tax expense

	Half-year Consolidated 31 December 2020 $'000	31 December 2019 $'000
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax expense	**(13,780)**	(67,449)
	(13,780)	(67,449)
Tax at the Australian tax rate of 30% (2019 - 30%)	**(4,134)**	(20,235)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**-**	6
Non-deductible expenses	**(56)**	25
	(4,190)	(20,204)
Adjustments for current tax of prior periods	**(40)**	88
Income tax expense/(income)	**(4,230)**	(20,116)

** The non-current deferred tax asset balance of $55.6m has largely resulted from the recent sale of the Australian PDL assets.*

6 Purchased debt ledgers

Other financial assets subsequently measured at amortised cost

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current	**6,079**	172,541
Non-current	**11,932**	12,187
Total other financial assets subsequently measured at amortised cost	**18,011**	184,728

Current and Non-current	**31 December 2020**	31 December 2019
At beginning of the period	**184,728**	410,303
Net additions	**4,665**	28,219
Gross PDL Collections	**(26,016)**	(53,653)
Call Option Buybacks	**805**	-
Interest income	**16,567**	44,664
PDL Post Sale Collections	**(5,278)**	-
Impairment Loss	**-**	(89,855)
Legal and Court Cost Capitalised	**-**	2,694
Gain on disposal of PDLs	**238**	-
Disposal of PDLs	**(157,698)**	(4,789)
At end of the period	**18,011**	337,583

PDLs are considered as purchased or originated credit impaired ("POCI") assets and are measured at amortised cost using the effective interest rate method in accordance with AASB 9: *Financial Instruments*.

The credit-adjusted 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.

Where the carrying amount exceeds the present value of the estimated future cash flows discounted at the asset's original Effective Interest Rate ("EIR"), the Group recognises an impairment loss.

On 23 December 2020, the Group entered into a sale agreement with Credit Corp Group to acquire a significant portion of its Australian PDL assets at a notional value of $160m as at 30 September 2020. Since then, this value has reduced to $159.4m with a small portion of accounts not able to be sold. At 31 December 2020, $156.3m of this sale transaction had been processed with a gain on disposal of $0.2m recorded. The size of the above gain was not material due to the related impairment of $111.5m (before tax) that was recognised in the 30 June 2020 accounts. Some additional accounts will be recorded as a sale after 31 December 2020 with no material Net Profit impact. The sale included purchases of forward flow agreements ($1.4m) which when added to the above $156.3m equates to the $157.7m shown in the above PDL movements note as "Disposal of PDLs".

7 Intangible assets

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Goodwill	**19,725**	19,724
Computer software	**8,883**	9,958
Customer contracts	**353**	452
Work-in-progress	**1,194**	2,877
Total intangible assets	**30,155**	33,011

8 Equity investments

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Investment in Volt Corporation Ltd	**3,516**	4,868
Total Equity investments	**3,516**	4,868

The Group designated the investment in Volt Corporation Ltd as equity securities at fair value through other comprehensive income (FVOCI) because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes.

The valuation of the investment at 31 December 2020 has been estimated with reference to an equity raise that is currently underway (February 2021) with the issue price being $0.325 cents per share equating to a value of $3.5 million and a further decrease in value of $1.4m.

Any changes in fair value are captured within the Fair Value Reserve and other comprehensive income.

Fair value is based on level 3 inputs as Volt Corporation Limited's shares are not traded in an active market at reporting period, thus fair value is based on the valuation done by the Group, which is available in their latest Information Memorandum (IM).

9 Borrowings

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current	**17,508**	214,857
Non-current	**59,058**	-
Total Borrowings	**76,566**	214,857

Coincident with completion of the PDL sale transaction, the Company refinanced its remaining senior debt on the following basis:

- $20.0m Fully amortising Term Loan Facility (Facility A) with interest payable on a monthly basis and scheduled quarterly re-payments over a three year term.
- $41.6m Term Loan Facility (Facility B) with a term of three years, capitalising interest, and cash sweep payments at times when the Group's cash balance is above a level agreed with the lenders.
- As a part of the PDL sale transaction, the purchaser has provided a loan of $15.0m with a maturity of two years with interest capitalised during the term.

Hence, total debt was $76.6m ($61.6m + $15.0m from above). Due to the new arrangements, a portion of the debt is now able to be considered non-current in line with the repayment terms of the facilities.

10 Contributed equity

	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 $'000	30 June 2020 $'000
Ordinary shares - Fully paid	**141,948,162**	141,948,162	**120,260**	120,260
Treasury shares	**(512,317)**	(512,317)	**(693)**	(693)
Total contributed equity	**141,435,845**	141,435,845	**119,567**	119,567

(a) Movements in ordinary share capital:

Date	Details	Number of shares	$'000
1 July 2019	Opening balance	139,279,060	117,077
12 September 2019	Performance Rights Plan	1,141,738	1,416
	Less: Transaction costs arising on share issues	-	(7)
30 September 2019	Share Issuance: Exempt Employee Share Plan	154,795	197
25 October 2019	Dividend reinvestment plan issues	1,372,569	1,584
	Less: Transaction costs arising on share issues	-	(7)
30 June 2020	Closing Balance	141,948,162	120,260
1 July 2020	Opening balance	141,948,162	120,260
-	Performance Rights Plan	-	-
-	Share Issuance: Exempt Employee Share Plan	-	-
-	Dividend reinvestment plan issues	-	-
-	Less: Transaction costs arising on share issues	-	-
31 December 2020	Closing Balance	141,948,162	120,260

(b) 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.

11 Dividends

(a) Ordinary shares

	Half-year Parent entity 31 December 2020 $'000	Half-year Parent entity 31 December 2019 $'000
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the half years ending 31 December 2020 and 31 December 2019 were as follows:		
Paid in cash	**-**	4,180
Satisfied under the Dividend Reinvestment Plan	**-**	1,584
	-	5,764

(b) Dividends declared

There will be no interim dividend recommended.

(c) Franked dividends

There is no impact to franking credits as there will be no interim dividend recommended.

12 Contingencies

(a) Contingent liabilities

There are no material changes in contingent liabilities subsequent to the contingent liabilities disclosed in the last annual report for the year ended 30 June 2020.

- Bank Guarantees (secured) exist in respect of satisfactory contract performance in the normal course of business for the Group amounting to $7,901,028 (30 June 2020: $6,732,284).
- 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.
- 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. The two purchase agreements with Put & Call option have the expiry dates of 3 November 2023 and 2 December 2024.
- On 15 March 2019, the Group was provided with a copy of a claim and statement of claim, which had been filed in the Supreme Court of Queensland on the same date. The claim for damages is for $2,800,000 and proceedings are still being defended by the Group.

13 Commitments

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

	Consolidated 31 December 2020 $'000	Consolidated 30 June 2020 $'000
Within one year	**1,925**	13,988
Later than one year, not later than five years	**-**	1,910
	1,925	15,898

14 Earnings per share

	Half-year Consolidated	
	31 December 2020 Cents	31 December 2019 Cents
(a) Basic earnings/(loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**(6.8)**	(33.8)
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the Company	**(6.8)**	(33.8)
(b) Diluted earnings/(loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**(6.8)**	(33.8)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**(6.8)**	(33.8)

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

	Half-year Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Basic earnings/(loss) per share		
Profit/(Loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(9,550)**	(47,333)
	(9,550)	(47,333)
Diluted earnings/(loss) per share		
Profit/(Loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**(9,550)**	(47,333)
	(9,550)	(47,333)

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

	Half-year Consolidated	
	31 December 2020 Number	31 December 2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**141,435,845**	139,867,547
Adjustments for calculation of diluted earnings per share:		
Performance rights	**-**	1,035,805
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**141,435,845**	140,903,352

15 Events occurring after the reporting period

The majority of proceeds from the sale of the Company's PDL assets were received on 31 December 2020. However, further proceeds were received after 31 December 2020 as additional vendor consents which were received. Post balance date, an additional $6.8m of proceeds has been applied to reduce the total senior debt facility to $54.3m ($61.6m at 31 December 2020).

Other than the matters discussed herein, there are no other matters or circumstances that have arisen since 31 December 2020 up until the date of this report that have significantly affected, or may significantly affect:

(a) the Group's operations in future financial years,

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 21 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 31 December 2020 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that Collection House Limited will be able to pay its debts as and when they become due and payable.

The directors have been given a declaration by the Chief Executive Officer.

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

Leigh Berkley

Chairman

Brisbane, 23 February 2021

KPMG

Independent Auditor's Review Report

To the shareholders of Collection House Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Collection House Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Collection House Limited does not comply with the Corporations Act 2001, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001.*

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Collection House Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

The ***Interim Period*** is the 6 months ended on 31 December 2020

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1a "Basis of preparation – Going concern" in the Half-year Financial Report. The conditions disclosed in Note 1a indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Half-year Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Ben Flaherty

Partner

Brisbane

23 February 2021