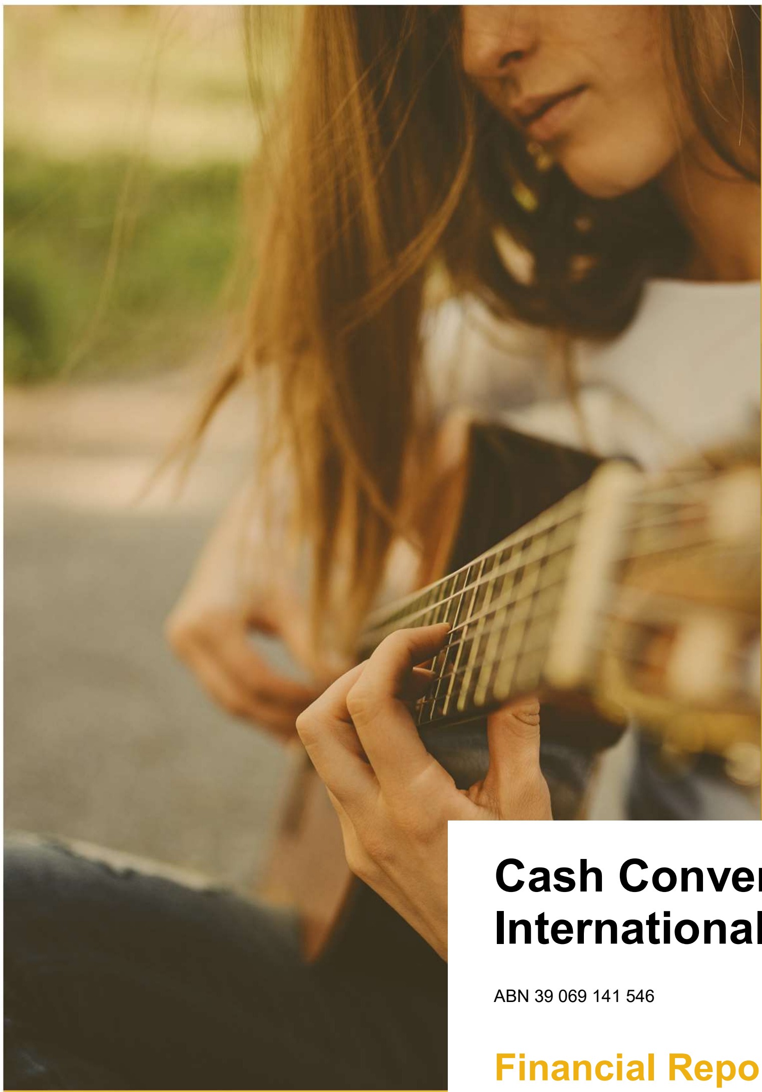
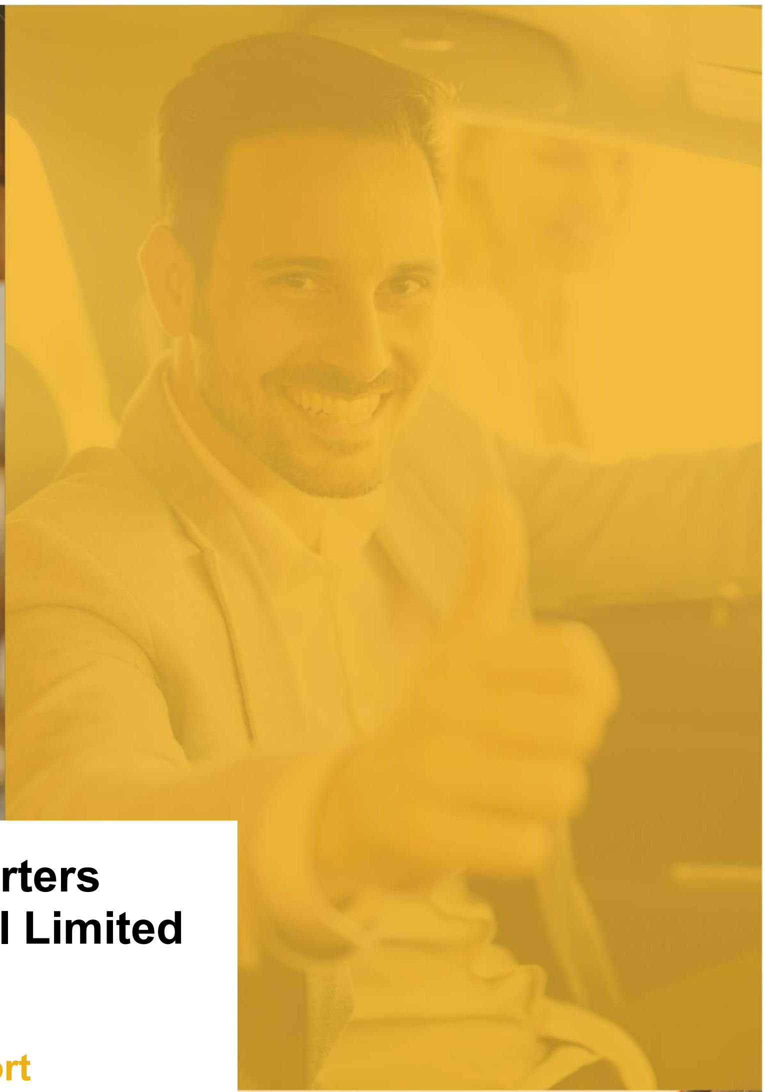




# Cash Converters International Limited

ABN 39 069 141 546

## Financial Report

## For the year ended 30 June 2019

cashconverters.com.au

# Contents



These financial statements have been organised into the following six sections:

1. Basis of preparation
2. Financial performance
3. Assets and liabilities
4. Capital structure and financing costs
5. Group structure
6. Other items

Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used or information required to understand the note. The purpose of this format is to provide readers with a clearer understanding of what drives the financial performance and financial position of the Group.

# Corporate directory

**Directors**

| | |
|---|---|
| Mr Stuart Grimshaw | Non-Executive Chairman |
| Mr Peter Cumins | Executive Deputy Chairman |
| Mr Kevin Dundo | Non-Executive Director |
| Mr Lachlan Given | Non-Executive Director |

**Company Secretary**

Mr Brad Edwards

**Registered and principal office**

Level 11, Citibank House
37 St Georges Terrace
Perth WA 6000
Australia
Tel: +61 8 9221 9111
Web: www.cashconverters.com

**Share registrar**

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000
Australia
Tel: 1300 850 505

**Auditors**

Deloitte Touche Tohmatsu
Brookfield Place, Tower 2
123 St Georges Terrace
Perth WA 6000
Australia

**Stock Exchange**

Australian Securities Exchange
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000
Australia

ASX code: CCV

Cash Converters International Limited (the Company) and entities controlled by the Company and its subsidiaries (the Group) is a diverse group generating revenues from franchising, store operations, personal finance and vehicle finance, supported by a corporate head office in Perth, Western Australia. The Company operates in Australia and the United Kingdom and also has an equity interest of 25% in Cash Converters New Zealand. There is a franchise presence in a further 15 countries around the world.

**Financial Performance**

The Company reports revenue growth of 8.2% to $281.565 million (2018: $260.345 million), and a full year net loss after tax of $1.692 million compared to a prior year profit after tax of $22.503 million. The profit and loss statement includes adjustments that the Company categorises as outside its normal operating activity and has listed these items below, to provide a comparative result that more accurately reflects the underlying performance of the business. The effect of these items in aggregate reduced the net profit after tax by $22.387 million. Excluding these adjustments, the profit after tax of the Company was $20.695 million, and EBIT before adjustments was $39.754 million (2018: $43.512 million).

Across the Group, the year ended 30 June 2019 (FY 2019) saw gross loan books increase by 27.9% to $220.490 million (2018: $172.339 million), with the most significant increases seen in the vehicle financing business, Green Light Auto (GLA) which increased by over 70%. Personal loan growth was most prevalent in online lending, with the Medium Amount Credit Contract (MACC) online loan book increasing by 40.0%. The Small Amount Credit Contract (SACC) loan book now comprises only 43.4% of the total loan receivables of the Group, down from 49.7% at 30 June 2018.

Whilst the strong growth in lending has driven the top line revenue growth across the personal finance and vehicle finance businesses, the year has been impacted by an increase in arrears and write-offs of loans. Combined with this increase has been the adoption of AASB 9 *'Financial Instruments'*, the effect of which has been to apply further increases to the provisions for doubtful debt based on the arrears profile and expected credit loss. As the business experienced an increasing trend of arrears and loan write-offs during the year, all credit decisioning has been reviewed and more stringent credit criteria applied across the products offered. Investment in data analytics has provided deeper insights into the propensity of customers to repay, which has driven down acceptance rates in the second half of the year. The vehicle financing business has overhauled its risk scorecard and product pricing to ensure an acceptable risk profile as it expands its broker network and continues to grow the loan book.

A summary of consolidated revenues and results by significant segment is set out below:

| | **Segment revenues** | | **Segment EBITDA results** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Franchise operations | 19,124 | 19,606 | 11,420 | 12,404 |
| Store operations | 118,216 | 118,540 | 13,897 | 15,787 |
| Personal finance | 125,136 | 109,490 | 38,415 | 46,677 |
| Vehicle financing | 18,160 | 11,969 | 866 | 2,574 |
| Totals before head office costs | 280,636 | 259,605 | 64,598 | 77,442 |
| Head office | 929 | 740 | (43,315) | (27,666) |
| **Totals after head office costs** | 281,565 | 260,345 | 21,283 | 49,776 |
| Depreciation, amortisation and impairment | | | (13,222) | (7,683) |
| Finance costs | | | (10,427) | (10,822) |
| Profit / (loss) before income tax | | | (2,366) | 31,271 |
| Income tax benefit / (expense) | | | 674 | (8,768) |
| **Profit / (loss) for the year** | | | (1,692) | 22,503 |

**Significant adjustments**

As referenced above, the result for the year has been impacted by a number of adjustments that do not reflect the normal operating performance of the business. Details are outlined below and summarised in the following table:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Earnings before interest & tax (EBIT)** | 8,061 | 42,093 |
| | | |
| *Adjustments:* | | |
| McKenzie class action settlement | 16,400 | - |
| Class action legal fees | 3,151 | 2,749 |
| Credit risk review | 5,059 | - |
| Restructuring costs | 1,492 | - |
| Accelerated amortisation & depreciation | 3,546 | - |
| UK IT Project | 1,558 | - |
| Other costs | 487 | (1,330) |
| **Adjusted EBIT** | 39,754 | 43,512 |

The most significant event in the year was the settlement of the McKenzie class action in November 2018. The Company reached a settlement of $16.400 million for the action. The Lynch proceeding remains outstanding and following the trial in November 2018, the Company awaits judgement, the outcome of which is still unknown. Legal fees were incurred during the year of $3.151 million (2018: $2.749 million) in defence of the actions. Whilst the Lynch proceeding remains outstanding there will continue to be some additional fees through FY 2020.

With the increase in arrears and bad debts written off during the year, the business completed a comprehensive review of the loan books with external consulting assistance. The outcome of these reviews was a complete change to the credit scorecard of GLA and significant changes to the credit modelling for personal finance. The reviews also critically assessed the recoverability of loans in arrears and determined that a number of accounts should be written off. The net impact of these write-offs increased the net debt expense by $5.059 million ($1.450 million for personal finance and $3.609 million for GLA). Accelerating these write-offs also impacted the modelling for provisions under AASB 9 through a change to the loss rates and expected credit loss profile.

The change of CEO during the year and additional restructuring to the leadership team resulted in $1.492 million of restructuring costs for the year, including payments to the outgoing CEO and additional compensation for forfeited entitlements of the incoming CEO (details of which are included in the Remuneration Report).

The new CEO initiated a series of reviews of IT projects, software assets and operational processes. One outcome from these reviews was the decision to abandon a software development project in the UK, resulting in total costs of $1.558 million being expensed in the year. The pace of change in the technology landscape and the continued reinvestment in the Company's core platforms also resulted in a revision to the expected useful life of the capitalised software and accelerated amortisation and depreciation of $3.546 million. This reduced the carrying value of intangible software assets to $16.771 million.

Other costs expensed in the year were the net of:

i) increases to inventory and pawnbroking provisions for the corporate store assets of $1.410 million, reflecting updates to the estimates used to measure their recoverable value and the prevailing age of the assets; and

ii) a credit to the profit and loss of $923 thousand due to the business not meeting the vesting criteria on the long-term incentive (LTI) plan for the options which were due to vest on 30 June 2019. The costs previously expensed in relation to the tranche of options linked to normalised earnings per share growth (NEPSG) were credited to the profit and loss. A further $574 thousand of costs associated with the tranche of options linked to a market-linked total shareholder return vesting condition, were credited directly to retained earnings in accordance with the accounting treatment prescribed by AASB 2.

**Franchise operations**

Franchise operations incorporate:

- royalties and license fees from 15 countries with franchised Cash Converters operations;
- operations of wholly-owned subsidiary Cash Converters UK Ltd (CCUK), which operates as master franchisor to 197 (2018: 196) UK franchisee operated stores;
- equity accounted returns for the Company's 25% equity interest in Cash Converters New Zealand (CCNZ) where the master franchisor operates 16 corporate owned stores and 12 franchise operated stores; and
- fees from 84 (2018: 84) franchisee owned and operated stores in Australia.

The total number of franchised stores globally now stands at over 650, with 84 stores in Australia, 195 in the UK and approximately 380 throughout the rest of the world. The Company continues to look for opportunities to expand its franchise network, both in Australia and internationally.

EBITDA for the franchise operations was $11.420 million, a decrease of $984 thousand from the prior year. This decrease was a combination of positive and negative variances. A reduction of interest revenue following the repayment of the $15.000 million loan made to CCNZ that matured in September 2018 reduced interest income by $838 thousand. The loan was replaced with a new partner loan of $2.914 million from the Company (supported by a loan of $8.741 million from the 75% equity partner).

Total franchisee fees, royalty revenues and license fees combined to provide an increase of 5.0% from the prior year, with an additional $574 thousand from international franchisees and $161 thousand from Australian franchise stores.

A decline in cash advance income from UK franchisees and increased IT expenses due to the write-off of the IT project, reduced the UK's EBITDA contribution by $850 thousand to $2.371 million.

Australian franchise operations contributed $5.966 million of revenue (2018: $5.805 million) reflecting annual increases in fees. The network remains positive and looking for new opportunities to open more stores across the country.

New Zealand's operation has continued its growth trajectory, particularly in its lending business as it expands its product portfolio available in stores and online. This growth brings the equity investment contribution to EBITDA of $1.613 million, up from $846 thousand in the prior year, a 90.6% increase.

**Store operations**

Store operations combines the performance of the 69 Company-owned Cash Converters stores in Australia.

Revenue from these stores is derived from the retailing of new and second-hand goods both in-store and online, as well as interest from pawnbroking loans and cash advance short-term loans made in-store. Commission is also paid to the stores by the Group's Personal Finance business for successful personal loan applications made in-store. The store network also receives a share of income from successful online loan applications by customer in their state. The commission and online income are eliminated upon consolidation of the group result.

With an environment seeing declining sales reported from the large retail groups, it is encouraging to see a year of growth in retail sales from the store network, with in-store retail sales up 4.6%. Online retail revenue decreased during the year following changes to the Company's eCommerce platform, but still combined to produce an overall retail revenue increase of 2.0% to $74.913 million (2018: $73.444 million). Pawnbroking revenue delivered its tenth consecutive year of growth, with revenue up 3.8% and pawn loans outstanding up 3.0% to $10.936 million. However, income from the in-store Cash Advance loans declined during the year, with principal advanced down 18.3% compared to FY 2018, which led to a decrease in Cash Advance revenue of 22.1% to $12.234 million. In-store personal loan referrals were also down on the prior year for both SACC and MACC loans, with principal advanced down 1.8% and 5.8% respectively. The composition of the lending from stores (compared to online) dropped to just below 50% (2018: 53.3%) of total principal advanced for the year.

Overall the EBITDA from the store network decreased by $1.890 million to $13.897 million (2018: $15.787 million) from $118.216 million in segment revenue. This included the additional provisions for aged inventory and pawn loans of $1.410 million collectively as aged inventory increased and gross retail stock on hand increased 4.0% to $20.292 million during the year (2018: $19.503 million).

**Personal finance**

The personal finance operations incorporate the trading results of Cash Converters Personal Finance Pty Ltd (CCPF) and Mon-E Pty Ltd (Mon-E). CCPF provides unsecured loans originated through the franchise and corporate store networks (49.5% of principal lent) and directly from customers online (50.5% of principal lent). The loans are underwritten, and the principal funded by CCPF, which pays a commission to the stores (both corporate and franchise) for the generation of the lead and processing the application in-store. The business offers two loan types referred to as SACC (Small Amount Credit Contracts) and MACC (Medium Amount Credit Contracts). SACC loans range from $400 to $2,000, for a duration between 6 weeks and 12 months, with a default 9-month term. The average size SACC loan is $1,175 (2018: $1,147). MACC loans range from $2,000 to $5,000, and can be from 4 to 24 months' duration, with a default term of 12 months. Average MACC loans for the year were $3,562 (2018: $3,606).

Mon-E is responsible for providing the software platform and administration services for the Cash Converters store network in Australia to offer small cash advance loans to their customers (average loan size of $440, 2018: $427) and refer personal loans from stores to CCPF for assessing. The cash advance principal loaned is financed by the corporate stores and the individual franchisees for the cash advances provided by their stores. Mon-E receives commission from the store network for each cash advance processed through their systems as a percentage of fees earned by the store and successfully collected.

Segment revenue for the year increased 14.3% to $125.136 million (2018: $109.490 million), however increasing arrears and bad debts written off reduced the segment EBTIDA of the division to $38.415 million (2018: $46.677 million). The credit risk review performed, resulted in an additional $1.450 million in net bad debt expense incurred during the year, which contributed to the EBITDA reduction. The net bad debt expense also includes movement in the provision for doubtful debts, which has changed substantially under the new accounting standard (AASB 9 *'Financial Instruments'* – see note 1(b) to the financial statements for details). Of the $9.538 million increase in personal finance provisions during the year, $3.775 million is directly attributable to the new accounting treatment.

In the year which saw the government hand down its findings from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, opportunities for the Australian consumer to access credit have never been as limited. Cash Converters continues in its ambition to exceed the compliance standards set by the regulator for our sector, whilst endeavouring to meet our customers' every growing need for cash solutions. This change to the credit landscape is thought to be one of the contributing factors to an 18.8% increase in loan applications, however the ongoing review and refinement of the Company's credit risk parameters resulted in the approval rates dropping to 32.2% for SACC and 16.4% for MACC.

For the SACC product, the small decrease in approval rates against the significant increase in applications led to a net increase in principal advanced of 6.0% to $133.493 million (2018: $125.916 million). The closing gross SACC loan book was $91.706 million (2018: $80.366 million) up 14.1%. Net bad debt expense for the year of $36.919 million for SACC lending was up $16.713 million on the prior year but includes the additional write-off of $1.545 million following the credit risk review, and the impact of the change in accounting standard (AASB 9) contributed $2.179 million to the overall $6.327 million increase in the SACC provision for doubtful debts.

Within the MACC product, a sharper decline in approval rates as the Company deployed more refined credit decisioning saw MACC principal advanced remain in line with the prior year at $54.874 million (2018: $54.935 million). The closing loan book, due to the longer loan term was up 23.6% to $42.082 million (2018: $34.040 million). Net bad debt for MACC also increased during the year to $10.359 million (2018: $7.189 million). Of the

$3.210 million increase, $1.596 million is attributable to the new accounting standard.

Cash Converters continues to utilise its proprietary software to analyse customer bank statements to arrive at a position of affordability using actual transaction data, not benchmarks, and complemented by customer declarations and advanced data analytics to assist in credit decisioning. However, all loan approvals are still manually determined through the credit assessment team. Having worked to optimise the efficiency of loan processing and enhance the customer experience, the Company was pleased to pioneer the integration with the New Payments Platform (NPP) and as one of the first commercial (non-bank) organisations to utilise the technology, the Company can now disburse approved loans to be received into customers' accounts instantaneously.

**Vehicle financing**

Green Light Auto Group Pty Ltd (GLA) is the Company's vehicle financing business, offering a range of secured automotive loans through a network of brokers, car dealerships, Cash Converters stores and direct to customer online. During the year, GLA refined its product offerings with secured loans now offered from $5,001 to $45,000 (previously $5,000 to $50,000) for a term of up to 5 years (previously 7 years). In the current year the average loan value reduced slightly to $17,410 (2018: $18,036) with an average term of 56 months (2018: 54 months). Interest and fees charged on the loans are risk rated to the applicant's credit circumstances, the nature of the asset secured against the loan and loan term. The average written rate of the loans advanced in 2019 was 25.4% (2018: 25.6%).

Since its launch in March 2016, the GLA loan book has continued to grow year on year. Total applications in 2019 were 8,083, up 46.6% on 2018 and with an approval rate of 27.5%, which saw total loans advanced for 2019 up 47.0% to $38.634 million (2018: $26.278 million). This growth is pleasing given the continued tightening of the Company's credit criteria and is driven by the continued expansion of the broker and dealer network across Australia. Total contributing broker numbers exceeded 211 at the end of the year and with the onboarding of AFG one of Australia's largest finance aggregators in May 2019 this is set to grow further into 2020.

During the year GLA further enhanced its operating model and completed the transfer to an integrated loan processing function with the Group's personal finance operations centre in Queensland. Leveraging the scale of the CCPF operation to reduce loan processing time to improve the experience for brokers and the customer. Investment has also been made and the first phase deployed of a new broker portal for loan applications to assist in preliminary loan assessments, future phases of the project will see the application process seamlessly integrate with the now consolidated loan management back of house system, ultimately allowing GLA to participate in the NPP loan disbursements to further reduce the funding time for the business.

The discontinued Carboodle lease business is now in its final year with all lease contracts scheduled to end by March 2020. As at 30 June 2019, 81 active leases remain (2018: 230) and gross lease receivables of $487 thousand (2018: $1.472 million) are outstanding. Where possible, customers at the end of their lease are being given the opportunity to acquire their vehicle with the residual financed by GLA.

**Corporate costs**

Corporate costs consist of activities in the Head Office that support the operating entities of the business, such as IT, Business Development, Finance, Human Resources, Risk and Internal Audit, Legal, Marketing, Board and executive leadership team. Included in the Head Office segment EBITDA loss of $43.315 million is the settlement of the McKenzie class action of $16.400 million and associated legal fees of $3.151 million (2018: $2.749 million). The 2019 year also included the costs of restructuring under the leadership of the new CEO, leading to non-recurring costs for the year of $1.492 million. After adjusting for these items and the reversal of lapsed LTI share-based payment expenses of $923 thousand (2018: $1.330 million), the adjusted EBITDA for head office improved by 11.6% to $23.644 million (2018: adjusted $26.247 million).

**Financial Position**

| Summarised Financial Position | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Cash at bank | 81,101 | 139,991 |
| Loan receivables | 174,600 | 151,724 |
| Other receivables | 14,087 | 28,261 |
| Inventories | 20,370 | 20,673 |
| Other assets and intangibles | 174,082 | 168,480 |
| **Total assets** | **464,240** | **509,129** |
| | | |
| Borrowings | 123,336 | 158,347 |
| Other liabilities | 24,052 | 28,374 |
| **Total liabilities** | **147,388** | **186,721** |
| | | |
| **Total equity** | **316,852** | **322,408** |
| | | |
| Operating cash flow | (31,788) | (21,549) |
| Gearing (net debt/equity) | 13.7% | 6.1% |
| Basic (loss) / earnings per share (cents) | (0.27 cents) | 4.55 cents |
| | | |
| Return on equity | (0.5%) | 7.0% |

*Receivables (trade and personal loans)*
Outstanding loan receivables (personal loans, pawnbroking loans and vehicle finance loans) for the year have increased from $151.724 million ($145.055 million AASB 9 adjusted - see note 1(b) to the financial statements) to $174.600 million, corresponding to a gross loan book increase of 27.9% to $220.490 million. Other receivables have decreased following the repayment of the $15.000 million loan to Cash Converters New Zealand (CCNZ), which was repaid in September 2018. A new loan of $2.787 million was issued during the year to CCNZ with a five year team, charging a 5% annual interest rate. The balance of other receivables has also reduced following the scheduled repayments of the loans provided to the UK franchisees who acquired the 49 corporate stores in 2016.

*Other assets and intangibles*
The Company continues to invest in its technology assets, with $6.636 million of capitalised software development incurred during the year (2018: $7.458 million). Additional property, plant and equipment expenditure of $616 thousand was also incurred during the year. Following the review of assets and IT projects, additional amortisation and depreciation was charged in the year of $5.105 million, to reduce the useful life of capitalised software. In addition, a UK IT project was impaired, reducing the carrying net book value of intangible software assets to $16.771 million (2018: $19.369 million).

*Borrowing and gearing*
As reported in the prior year, the Company's securitisation facility with Fortress Investment Group was amended in December 2017 to increase the facility limit to $150.000 million and facilitate the financing of MACC and GLA loans, in addition to the existing SACC financing. The amendment to the facility also extended the term for a further three years (plus a two-year extension option). At 30 June 2019 the facility was drawn to $124.500 million (2018: $99.500 million).

On 19 September 2019, the Company repaid the FIIG Securities bond of $60.000 million utilising the available cash balances following the successful capital raise at the end of the prior year. With the bond repaid, the Company now only has debt facilities with the Fortress Investment Group.

The repayment of the FIIG bond has reduced the cash balances from 30 June 2018, (which were elevated due to the completion in June 2018 of the non-renounceable entitlement issue raising net proceeds of $37.966 million) from $139.991 million down to $81.101 million at 30 June 2019. The additional drawn down from Fortress offset some of the bond repayment and its depletion of cash, increasing the net debt position at 30 June 2019 to $43.399 million (2018: $19.509 million) and the gearing ratio has increased to 13.7% at 30 June 2019 (2018: 6.1%).

*Cash flows*
The increase in gross loan books of 27.9% during the year, and the increased share of these loan books weighting towards longer term MACC and GLA loans meant that operating cash flow for the year was a net outflow of $31.788 million (2018: $21.549 million). This operating cash flow also includes the $16.400 million class action settlement paid in November 2018.

**Business Risks**

The Company's performance and outlook continue to be impacted by uncertainty of the regulatory environment and legal challenges, with recommendations from the Senate enquiry still not enacted and the increased powers of the ombudsman and ASIC driving a greater burden upon compliance functions and decreasing the opportunity to responsibly lend to customers to meet their financial needs. As outlined in the notes to the financial statements, a change of the protected earnings amount (PEA) for all borrowers to 10% of net income, would have a substantial impact on the future of SACC lending and the carrying value of the personal finance business.

**Outlook**

Cash Converters is a business in transition. With a new Chief Executive Officer on board and other key leadership appointments occurring, management has identified the opportunities ahead to continue to transform the business into a diverse, sustainable and increasingly profitable business over the next five years, holding firm to the ambition to become the most trusted and customer-focused business of its type, supplying a convenient, reliable and valuable range of personal goods and personal finance solutions.

However, the Company still awaits the outcome of the Lynch class action, and whilst the impact of the case is not yet known, management continue to develop its strategy to drive the business forward and prepare itself for growth once this legacy issue is resolved.

Cash Converters has established itself as a market leader in second-hand goods retailing, pawnbroking and short-term unsecured lending in Australia, and will further leverage that scale with both its physical store presence and online capabilities. Through optimisation of these core businesses the Company can deliver increased value to the shareholders. The addressable market for secured auto financing also remains solid for the Green Light Auto brand to build its standing and become a larger participant in the sector.

The next horizon for the Company will be to leverage its platform, technology and brand to reach new customers through its network of stores and digital infrastructure.

The directors of Cash Converters International Limited submit the following report of the Company for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

**Information about directors**

The following persons held office as directors of the Company during the whole of the financial year and until the date of this report unless otherwise stated:

***Mr Stuart Grimshaw – Non-Executive Chairman***
Appointed director 1 November 2014
Appointed Chairman 10 September 2015

Mr Grimshaw joined the Board in 2014 and was appointed Non-Executive Chairman on 10 September 2015. Mr Grimshaw is currently the Chief Executive Officer of EZCORP Inc (a major shareholder in the Company). Prior to joining EZCORP in November 2014, Mr Grimshaw was the Managing Director and Chief Executive Officer of Bank of Queensland Limited (BOQ).

During his tenure at BOQ he initiated fundamental changes to BOQ's culture, operating model and strategic direction and established a strong track record of execution. In addition, a strong capital and provisioning strategy resulted in two credit rating upgrades to A-, and BOQ has been well supported by the equity markets with two global equity offerings successfully raising close to $800 million. In Mr Grimshaw's time at the bank, BOQ attracted and developed exceptional talent across the top four management levels and a unique culture and brand that is now well recognised by the market.

During his 30-year career in financial services, Mr Grimshaw has held a wide variety of other roles across many functions of banking and finance, including eight years at the Commonwealth Bank of Australia (CBA). At CBA, he started as Chief Financial Officer and over time became Group Executive, responsible for core business lines including Institutional and Business Banking as well as Wealth Management (Asset Management and Insurance). Prior to joining CBA, he worked for the National Australia Bank and was the Chief Executive Officer of Great Britain, with responsibility for large UK consumer banks Yorkshire Bank and Clydesdale Bank.

Mr Grimshaw represented New Zealand at the 1984 Olympics in Field Hockey and has a Bachelor of Commerce and Administration (Victoria University, Wellington, New Zealand) and an MBA (Melbourne University, Australia). He has also completed the Program for Management Development at Harvard Business School.

Over the past 3 years Mr Grimshaw has held directorships with the following listed companies:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| EZCORP Inc | 3 November 2014 | - |

***Mr Peter Cumins – Executive Deputy Chairman***
Appointed director April 1995
Appointed Executive Deputy Chairman 23 January 2017

Mr Cumins joined the Company in August 1990 as Finance and Administration Manager when the Company had just 23 stores, becoming General Manager in March 1992. He became Managing Director in April 1995. Mr Cumins moved from this role to the role of Executive Deputy Chairman on 23 January 2017.

Mr Cumins is a qualified accountant and has overseen the major growth in the number of franchisees in Australia as well as the international development of the Cash Converters franchise system. His experience in the management of large organisations has included senior executive positions in the government health sector, specifically with the Fremantle Hospital Group, where he was Finance and Human Resources Manager.

Over the past 3 years Mr Cumins has held a directorship with the following listed company:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| EZCORP Inc | 28 July 2014 | 9 April 2019 |

***Mr Lachlan Given – Non-Executive Director***
Appointed director 22 August 2014

Mr Given joined the Board in 2014. He is the Executive Chairman of EZCORP Inc and also a Director of The Farm Journal Corporation, a 138 year old pre-eminent US agricultural media company; Senetas Corporation Limited (ASX: SEN), the world's leading developer and manufacturer of certified, defence-grade encryption solutions; CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; and RateCity.com Pty Ltd, one of Australia's largest Internet based financial services comparison organisations.

Mr Given began his career working in the investment banking and equity capital markets divisions of Merrill Lynch in Hong Kong and Sydney where he specialised in the origination and execution of a variety of M&A, equity and equity-linked and fixed income transactions.

Mr Given graduated from the Queensland University of Technology with a Bachelor of Business majoring in Banking and Finance (with distinction).

Over the past 3 years Mr Given has held directorships with the following listed companies:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| Senetas Corporation Limited | 20 March 2013 | - |
| EZCORP Inc | 18 July 2014 | - |

***Mr Kevin Dundo – Non-Executive Director***
Appointed director 20 February 2015

Mr Dundo joined the Board on 20 February 2015. Mr Dundo practises as a lawyer and specialises in the commercial and corporate field, with experience in the mining sector, the service industry and the financial services industry. He is a member of the Law Society of Western Australia, Law Council of Australia, Australian Institute of Company Directors and a Fellow of the Australian Society of Certified Practising Accountants.

Mr Dundo is currently a Non-Executive Director of ASX-listed Imdex Limited (ASX: IMD) and Non-Executive Chairman of ASX-listed Red 5 Limited (ASX: RED).

Mr Dundo is a member of the Company's Audit and Risk Committee and Remuneration and Nomination Committee, and since 14 December 2018 has been the Chair of the Audit and Risk Committee.

Over the past 3 years Mr Dundo has held directorships with the following listed companies:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| Imdex Limited | 14 January 2004 | - |
| Red 5 Limited | 29 March 2010 | - |

***Ms Andrea Waters – Non-Executive Director***
Appointed director 9 February 2017
Resigned 14 December 2018

Ms Waters was Chair of the Company's Audit and Risk Committee and a member of the Remuneration and Nomination Committee until her resignation. Over the past 3 years Ms Waters has held directorships with the following listed company:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| MyState Limited | 19 October 2017 | - |

***Ms Ellen Comerford – Non-Executive Director***
Appointed director 9 February 2017
Resigned 30 September 2018

Ms Comerford was Chair of the Company's Remuneration and Nomination Committee and a member of the Audit and Risk Committee until her resignation. Over the past 3 years Ms Comerford has held directorships with the following listed companies:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| Heartland Bank Limited (NZX) | 1 January 2017 | - |

**Directors' shareholdings**

The following table sets out each director's relevant interest in shares and options in shares of Cash Converters International Limited as at the date of this report:

| ***Directors*** | ***Fully paid ordinary shares Number*** | ***Share options Number*** |
|---|---|---|
| Mr S Grimshaw | - | - |
| Mr P Cumins | 7,575,694 | 4,572,920 |
| Mr L Given | - | - |
| Mr K Dundo | - | - |

**Company Secretary**

***Mr Brad Edwards***
Appointed 30 June 2017

With a background in law, Mr Edwards has extensive private practice and corporate experience, most notably with the Bank of Queensland Limited (BOQ) for 15 years, where he held the roles of Company Secretary and General Counsel. His career encompasses financial services, including retail franchising, regulatory matters, dispute resolution and class action litigation, capital markets and mergers and acquisitions.

**Principal activities**

The principal activity of Cash Converters International Limited and its subsidiaries (the Group) is that of a franchisor of second-hand goods and financial services stores, a provider of secured and unsecured loans and the operator of a number of corporate stores in Australia, all of which trade under the Cash Converters name.

Country master franchise licences are also sold to licensees to allow the development of the Cash Converters brand but without the need for support from Cash Converters International Limited.

**Review of operations**

The Group's net loss attributable to members of the parent entity for the year ended 30 June 2019 was $1.692 million (2018: profit of $22.503 million) after an income tax benefit of $674 thousand (2018: expense of $8.768 million).

A review of the Group's operations and financial performance has been provided on pages 4 to 10.

**Changes in state of affairs**

During the financial year there were no significant changes in the state of affairs of the Company other than those referred to elsewhere in this financial report and the notes thereto.

**Subsequent events**

There have been no other events subsequent to the reporting date requiring disclosure in this report.

**Future developments**

Likely developments in expected results of the Group's operations in subsequent years and the Group's business strategies are referred to elsewhere in this report. In the opinion of the directors, any further information on those matters could prejudice the interest of the Company and has therefore not been included in this report.

**Dividends**

On 29 August 2019 the Company announced that there would be no final dividend in respect of the financial year ended 30 June 2019.

No final dividend was paid in respect of the financial year ended 30 June 2018.

**Shares under option or issued on exercise of options**

Details of unissued shares or interests under option as at the date of this report are:

| *Issuing entity* | *Number of shares under option* | *Class of shares* | *Exercise price of option* | *Vesting determination date* |
|---|---|---|---|---|
| Cash Converters International Limited | 1,998,760 | Ordinary | Nil | 30 Jun 2020 |
| Cash Converters International Limited | 8,975,010 | Ordinary | Nil | 30 Jun 2021 |

The performance rights above are in substance share options with an exercise price of nil, which vest and are immediately exercised into ordinary shares once certain performance / vesting conditions are met.

The holders of these performance rights do not have the right, by virtue of the performance right, to participate in any share issue or interest issue of the Company or of any other body corporate.

No shares have been issued as a result of the exercise of share options or performance rights during or since the end of the financial year.

**Indemnification and insurance of directors and officers**

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

**Directors' meetings**

The number of meetings of directors and meetings of committees of directors held during the year and the number of meetings attended by each director were as follows:

| *Directors* | *Board of directors* | | *Audit and Risk Committee* | | *Remuneration and Nomination Committee* | |
|---|---|---|---|---|---|---|
| | *Held* | *Attended* | *Held* | *Attended* | *Held* | *Attended* |
| Mr S Grimshaw | 12 | 12 | 5 | 5 | 5 | 4 |
| Mr P Cumins | 12 | 12 | 5* | 5* | 5* | 5* |
| Ms E Comerford | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr K Dundo | 12 | 12 | 5 | 5 | 5 | 5 |
| Mr L Given | 12 | 11 | 5* | 5* | 5* | 5* |
| Ms A Waters | 6 | 6 | 2 | 2 | 3 | 3 |

* Denotes directors who were not a member of the Committee but attended meetings by invitation.

**Non-audit services**

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services during the year by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001, as the nature of the services was limited to income tax and indirect tax compliance, transaction/compliance related matters and generic accounting advice. All non-audit services have been reviewed and approved to ensure they do not impact the integrity and objectivity of the auditor, and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6.6 to the financial statements.

**Rounding off of amounts**

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 85.

**Remuneration report (audited)**

1. Persons addressed and scope of the Remuneration Report
2. Performance and reward summary, key context and changes
3. Overview of Cash Converters' Remuneration Governance Framework and strategy
4. Performance outcomes for FY 2019 including STI and LTI assessment
5. Changes in KMP-held equity
6. Non-Executive Director fee policy rates for FY 2019 and FY 2020 and fee limit
7. Remuneration records for FY 2019 (statutory disclosures)
8. Employment terms for KMPs
9. Other remuneration-related matters
10. External remuneration consultant advice

**1. Persons addressed and scope of the Remuneration Report**

This remuneration report forms part of the directors' report for the year ended 30 June 2019 and has been prepared in accordance with the Corporations Act, applicable regulations and the Company's policies regarding key management personnel (KMP) remuneration governance. The Board has chosen to provide additional information beyond statutory requirements, to assist shareholders in obtaining an accurate and complete understanding of the Company's approach to the remuneration of KMP.

KMP are the non-executive directors (NEDs), executive directors and senior executive employees who have authority and responsibility for planning, directing and controlling the activities of the Company. On that basis, the following roles / individuals are addressed in this report:

| ***Non-executive directors*** | ***Position*** |
|---|---|
| Mr Stuart Grimshaw | Chairman and non-executive director |
| | Audit and Risk Committee member from 14 December 2018 |
| | Chair of Remuneration and Nomination Committee from 30 September 2018 |
| Mr Kevin Dundo | Audit and Risk Committee member, Chair from 14 December 2018 |
| | Remuneration and Nomination Committee member |
| Mr Lachlan Given | Non-executive director |
| Ms Andrea Waters | Non-executive director (resigned 14 December 2018) |
| | Chair of Audit and Risk Committee |
| | Remuneration and Nomination Committee member |
| Ms Ellen Comerford | Non-executive director (resigned 30 September 2018) |
| | Chair of Remuneration and Nomination Committee |
| | Audit and Risk Committee member |
| | |
| ***Executive director*** | |
| Mr Peter Cumins | Executive Deputy Chairman |
| | |
| ***Senior Executives classified as KMP*** | |
| Mr Brendan White | Chief Executive Officer (commenced 18 March 2019) |
| Mr Sam Budiselik | Chief Operating Officer |
| | Interim Chief Executive Officer (27 August 2018 to 18 March 2019) |
| Mr Ben Cox | General Manager Corporate Distribution |
| Mr Brad Edwards | General Counsel and Company Secretary |
| Mr Martyn Jenkins | Chief Financial Officer |
| Ms Myrrhine Cutten | Chief Human Resources Officer (resigned 25 January 2019) |
| Mr Nathan Carbone | Chief Risk Officer (resigned 9 November 2018) |
| Mr Mark Reid | Chief Executive Officer (resigned 27 August 2018) |

Appointments / changes that have occurred to the KMP during or since the end of the financial year are:

| | |
|---|---|
| Ms Ellen Comerford | Ms Comerford resigned as a Director effective 30 September 2018. |
| Ms Andrea Waters | Ms Waters resigned as a Director effective 14 December 2018. |
| Mr Stuart Grimshaw | Mr Grimshaw took responsibility as Chair of the Remuneration and Nomination Committee following the departure of Ms Comerford. |
| Mr Kevin Dundo | Mr Dundo took responsibility as Chair of the Audit and Risk Committee following the departure of Ms Waters. |
| Mr Brendan White | Mr White was appointed as Chief Executive Officer effective 18 March 2019. |
| Mr Mark Reid | Mr Reid resigned as Chief Executive Officer effective 27 August 2018. |
| Ms Myrrhine Cutten | Ms Cutten left the Company on 25 January 2019. |
| Mr Nathan Carbone | Mr Carbone left the Company on 9 November 2019. |
| Mr Sam Budiselik | Mr Budiselik was appointed Interim Chief Executive Officer on 27 August 2018 until the commencement of the new CEO Brendan White on 18 March 2019. |
| Mr Ben Cox | Mr Cox resigned as General Manager Corporate Distribution and will leave the Company in September 2019. Mr Cox returns to the UK to run his family's network of 28 franchised Cash Converters stores. |

## 2. Performance and reward summary, key context and changes

### *2.1 Company performance summary relevant to remuneration*

During the reporting period the Company completed a comprehensive review of operations following the commencement of the new Chief Executive Officer, Brendan White. The outcome of these reviews resulted in several adjustments to the reported profit that do not relate to the underlying performance of the business. Whilst the financial performance during the year fell short of expectations, the underlying business, compliance and operational effectiveness were managed diligently by the executive team during a period of transition. The result for the year also reflects the settlement of the McKenzie class action and associated costs. This statutory net loss for the year of $1.692 million does not represent the core strength of the business. The market value of the Company remains suppressed and is attributed in part to the ongoing uncertainty of outcome of the Lynch proceeding.

The following tables outline statutory performance indicators that must be presented in a Remuneration Report, as well as those indicators of performance that are directly or indirectly linked to KMP remuneration:

| | **Year ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Revenue from continuing operations | 281,565 | 260,345 | 271,241 | 311,599 | 288,666 |
| Net profit / (loss) before tax from continuing operations | (2,366) | 31,271 | 28,198 | 31,171 | 3,855 |
| Net profit / (loss) after tax | | | | | |
| - continuing operations | (1,692) | 22,503 | 20,618 | 25,894 | (1,255) |
| - discontinued operations | - | - | - | (31,166) | (20,430) |
| **Profit/(loss) after tax** | **(1,692)** | **22,503** | **20,618** | **(5,272)** | **(21,685)** |
| | | | | | |
| Share price | **cents** | **cents** | **cents** | **cents** | **cents** |
| - beginning of year | 31.0 | 31.5 | 43.5 | 70.0 | 108.0 |
| - end of year | 16.0 | 31.0 | 31.5 | 43.5 | 70.0 |
| Dividend (i) | | | | | |
| - interim | - | - | - | 2.00 | 2.00 |
| - final dividend | - | - | - | 1.00 | - |
| Earnings per share from continuing and discontinued operations | | | | | |
| - basic | (0.27) | 4.55 | 4.21 | (1.09) | (4.69) |
| - diluted | (0.27) | 4.43 | 4.12 | (1.09) | (4.69) |

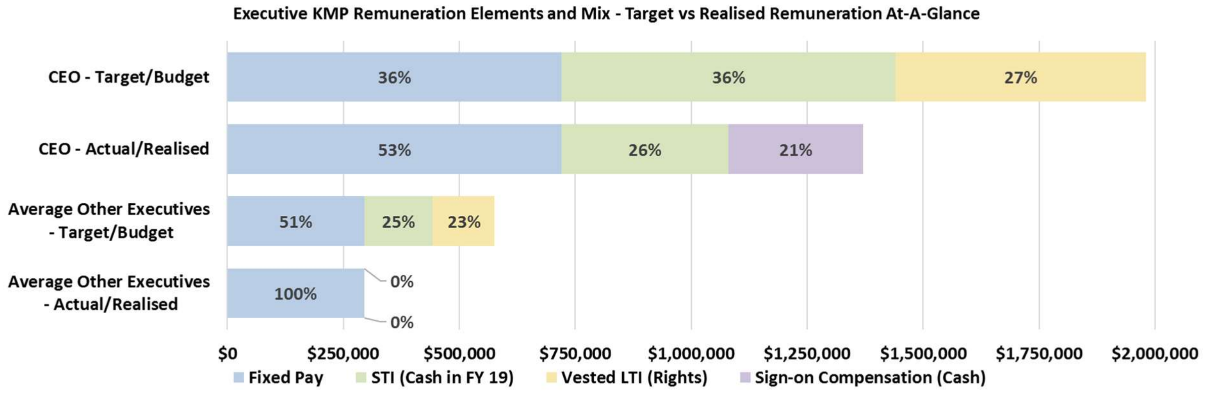
(i) Franked to 100% at 30% corporate income tax rate.

The table below sets out the comparison between Cash Converters internal targets set by the Company compared to actual performance for the key performance metrics that are the main drivers of incentive outcomes in FY 2019. This gives some indication of a correlation between planning and outcomes.

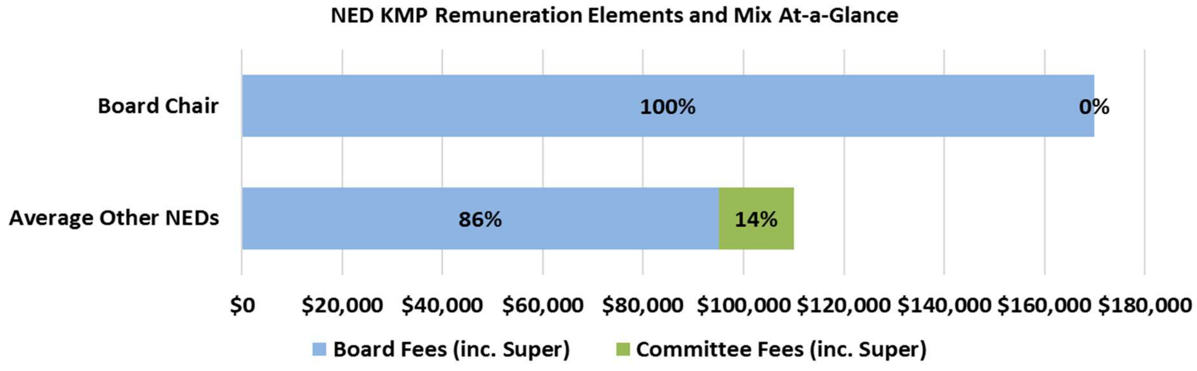
| Year ended 30 June | Actual NPAT $'000 | Budgeted NPAT $'000 |
|---|---|---|
| 2019 | (1,692) | 26,300 |
| 2018 | 22,503 | 20,419 |

### *2.2 KMP Remuneration At-A-Glance*

The following chart summarises executive remuneration quantum and mix at Target (i.e. reflecting Target policy) as well as actual/realised remuneration in respect of FY 2019, which the Board believes demonstrates that appropriate remuneration governance practices are being applied:




The following chart summarises Non-executive Director (NED) remuneration quantum and mix reflecting the actual remuneration of NEDs:




### *2.3 Key Context for, and Changes to, KMP Remuneration*

The following outlines those matters that the Board views as relevant to a consideration of the appropriateness of KMP remuneration for the reporting period, and changes that have or are expected to occur:

- The Board has remained mindful of the lessons for remuneration governance that arose from the royal commission into the financial services sector, and ongoing action by APRA and other stakeholders seeking to improve remuneration governance. The Board is confident that it is adopting best-practice approaches appropriate to Cash Converters.
- The Board has continued to look for improvements in stakeholder communication and engagement, including by streamlining this Remuneration Report.
- Non-Executive Director fees have not changed from FY 2018 to FY 2019.

- Base Packages of executives have not changed from FY 2018 to FY 2019, except in respect of changes outlined below:
  - Executive KMP holding the same and unchanged role have not received any increase to fixed or target variable remuneration.
  - Effective 1 January 2019, Executive Deputy Chairman, Peter Cumins executed a new employment contract, reducing his remuneration to a Base Package of $467,912 Fixed Annual Remuneration. As part of this new contract Mr Cumins relinquished any entitlement to participate in the STI plan for the FY 2019 and future years. Mr Cumins will also no longer receive any further allocations of performance rights under the Company's LTI Plan.
  - An adjustment was made to the COO's package for the period that he held the interim CEO role. Mr Sam Budiselik was paid an additional $250,000 in July 2019 in recognition of the additional responsibilities and leadership during his appointment as Interim CEO from September 2018 to March 2019.
- Short-term performance metrics have been further standardised across executive roles, with a greater focus on risk management, and robust non-financial drivers of performance, which would appear to align with emerging recommendations by regulators. As a result of a review in FY 2018 for the FY 2019 measurement period, a risk scorecard measurement is incorporated into the STI Plan as a mandatory gate for all KMP executives. There will continue to be a strong focus in FY 2020 on the link between the remuneration and risk frameworks as part of the variable incentive plans considerations.
- With the changing market conditions and ongoing regulatory change, the Board also continues to evaluate the structure of the executives' Long-Term Incentive plan. As such the vesting conditions for the FY 2019 issued performance rights have been amended as detailed later in this report. Whilst retaining the two key measures of indexed Total Shareholder Return and Earnings Per Share growth, the changes reflect the desire of the board to ensure the continued long-term engagement and retention of the senior executives through the establishment of achievable threshold levels for vesting and significant stretch potential over the 3-year measurement period. The previous gate condition of a positive TSR has been removed to allow each tranche to be measured independently against the performance of those criteria.
- As detailed in the FY 2018 report, the Board approved a minimum shareholding policy for KMP. The policy is applicable to Non-Executive Directors and KMP Executives and broadly requires accumulation of a minimum holding of shares equivalent to one year's Base Package (inclusive of superannuation and other benefits) with target time to accumulate, being 5 years, and allowances for Board discretion to be applied in circumstances such as exclusion of directors who are representatives of a major shareholder, retention of a proportion of vested LTI grants for accumulation purposes and exceptions for KMP where circumstances make it difficult to meet minimum requirements.
- The Board and management have achieved significant restructuring and operational improvements in the underlying businesses, though the settlement of the McKenzie class action and outstanding Lynch class action has suppressed some external measures of performance, such as total shareholder return. The Board views it as appropriate to recognise that both internal and external measures of performance and value creation have merit, and therefore it is appropriate that some level of variable reward flow to executives for delivering expectations in relation to internal measures of performance. Not to do so would present an unacceptable risk to the retention and motivation of the talent required to deliver the Company's current strategy.
- The remuneration arrangements applicable to the appointment of the new CEO, Mr Brendan White, may be summarised as follows:
  - $720,000 annual salary plus statutory superannuation contributions (Base Package)
  - One-off arrangements in consideration for the existing incentives from his previous employer that Mr White forewent in accepting the role:
    - In respect of short-term incentives foregone, Mr White was paid $104,277 in cash on 10 December 2018 in lieu of 10,533 BOQ shares and $104,267 in cash on 13 December 2018 in lieu of 10,532 BOQ shares.
    - In respect of long-term incentives foregone, Mr White received $81,279 in cash on 18 December 2018, in lieu of 8,210 BOQ shares, options for CCV equity in lieu of 43,520 BOQ shares and options for CCV equity in lieu of 21,947 BOQ shares. The vesting of the options will be dependent solely upon the continuing employment of Mr White by the Company at the compensation dates of 1 October 2019 and 1 October 2020 respectively. The number

of CCV shares will be determined by an exchange ratio methodology in accordance with his current contract.

- Mr White has been offered a Target vesting level of 75% of Base Package under the LTI Plan. Mr White has been granted a full year's entitlement for the FY 2019 year.
- Mr White has been offered a Target STI of 100% of base package. For FY 2019, the STI is guaranteed at a minimum of 50% of Base package, i.e. $360,000 as a one-off arrangement that was necessary to secure the appointment. For FY 2020 onwards, 50% of STI amounts will be deferred for 1 year.

## 3. Overview of Cash Converters' Remuneration Governance Framework and Strategy

The Board of Cash Converters has developed and adopted a best-practice KMP remuneration governance framework, including detailed policies and practices. These policies and practices are available on the Company website at https://www.cashconverters.com/Governance/RemunerationCommittee.

Following advice from external consultants, the Board has resolved to provide an overview of the framework in this report only, in order to streamline it, and trusts that interested stakeholders such as proxy advisors and institutional investors that require this level of detail will consider the material on the website as part of forming a view of this Remuneration Report. This practice appears to be recommended in the ASX Corporate Governance Council's Principles and Recommendations ($4^{th}$ Edition) relating to "incorporation by reference" of online governance disclosures such as these.

The framework elements available online, in addition to the disclosures in this report, include:

- Short-Term Incentive Policy and Procedure;
- Long-Term Incentive Policy and Procedure;
- Engaging External Remuneration Consultants Policy;
- Non-Executive Director Remuneration Policy and Procedure;
- Senior Executive Remuneration Policy and Procedure; and
- Securities Trading Policy.

Other elements of the framework are summarised below.

### *3.1 Variable executive remuneration - Short-Term Incentive plan (STIP)*

The STI Plan's purpose is to give effect to an element of remuneration that is part of a market competitive total remuneration package and aims to increase the commitment of Senior Executives to deliver and outperform annual business plans. It also aims to align their interests with shareholders, reinforce a performance culture and create a strong link between performance and reward, encourage a pursuit of sustainable improvements in Group performance, encourage teamwork and co-operation among executive team members and maintain a stable executive team by helping retain key talent. These objectives aim to be achieved by a simple plan that rewards participants for performance relative to key performance indicators (KPIs) derived from annual business plans.

The FY 2019 KPI metrics for Senior Executives were grouped into five categories being Group NPAT, Divisional NPAT, Customer Engagement, measured by Net Promoter Score, Risk Scorecard, measured under a sophisticated system developed specifically for the Company, Specific Operational Objectives related to the Company's strategy relevant to each role, and Individual Effectiveness, measured by an annual review by the CEO (or by the Board in the case of the CEO). The Board selected these measures as being those that are expected to drive economic profitability, and ultimately shareholder value creation over the long-term, within a financial year period.

For FY 2019, gates of 90% of budget NPAT and a Risk Gate ("Meets Expectations" result for the scorecard) applied so that no STI would be payable if these conditions were not met or exceeded.

Outcomes of STI assessment are presented later in this document. Weightings of KPIs, and outcomes, are shown elsewhere in this document. Target remuneration mixes including the intended Target value of STI are shown elsewhere in this document. For further details on plan design, such as treatment in the case of termination of employment etc, please see the plan description available online at the above website.

### *3.2 Variable executive remuneration - Long-Term Incentive Plan (LTIP) - Performance Rights Plan*

The purpose of the long-term incentive (LTI) is to create a strong link between performance and reward by providing a variable/at risk element of Senior Executive remuneration that focuses on performance and/or service over a period generally of three or more years. It aims to align the interests of Senior Executives with those of shareholders in Cash Converters International Limited (the Company) and to aid in maintaining a stable Senior Executive team. This element of remuneration constitutes part of a market competitive total remuneration package and aims to ensure that Senior Executives have commonly shared goals related to producing relatively high returns for Shareholders. Other purposes of the LTI Plan are to assist Senior Executives to become Shareholders, provide a component of remuneration to enable the Company to compete effectively for the calibre of talent required for it to be successful and to help retain employees, thereby minimising turnover and stabilising the workforce such that in periods of poor performance the cost is lesser (applies to non-market measures under AASB 2).

Currently the Company operates a Rights plan for the purposes of the LTIP, using indeterminate Performance Rights.

For FY 2019 the following metrics applied, weighted across two equal tranches, over a 3 year Measurement Period:

**Tranche 1**

| Performance Level | CCIL's TSR vs S&P ASX Small Industrials TR Index over the Measurement Period | % of Tranche Vesting |
|---|---|---|
| Stretch | ≥ Index TSR +4.25% | 100% |
| >Target | > Index TSR +2.15% < Index TSR +4.25% | Pro-rata |
| Target | Index TSR + 2.15% | 50% |
| >Threshold | >Index TSR & < Index TSR +2.15% | Pro-rata |
| Threshold | =Index TSR | 25% |
| <Threshold | <Index TSR | Nil |

**Tranche 2**

| Performance Level | CCIL's Normalised Earnings Per Share Compound Annual Growth Rate | % of Tranche Vesting |
|---|---|---|
| Stretch | ≥12% | 100% |
| >Target | >7% & <12% | Pro-rata |
| Target | 7% | 50% |
| >Threshold | >4% & <7% | Pro-rata |
| Threshold | 4% | 25% |
| <Threshold | <4% | Nil |

No gates applied to FY 2019 Invitations and no retesting applies. In the case of a Change of Control the following formula applies:

| | | |
|---|---|---|
| Number of Performance Rights to Vest | = | Unvested Performance Rights x (Share Price at the Change of Control - Offer Share Price) ÷ Offer Share Price |

Outcomes of LTI assessment are presented later in this document. Target remuneration mixes including the intended target value of LTIs are shown elsewhere in this document. For further details on plan design, such as termination of employment etc, please see the plan descriptions available online at the above website.

**4. Performance outcomes for FY 2019 including STI and LTI assessment**

***4.1 Short-Term Incentives***

The Board believes there are strong links between internal measures of Company performance and the payment of short-term incentives with each KMP Executive having STI KPIs linked to strategic objectives of the Company.

The STI achieved in relation to the FY 2019 period will be paid after the end of the period (i.e. during FY 2020, usually in September). For the CEO, as agreed in the offer of employment, a guaranteed STI payment equivalent to 100% of the full year target award opportunity will be paid. No STIs will be paid to other KMP executives. This level of award was considered appropriate under the STI plan since the objectives were set and offers made in relation to the achievement of each KPI at the beginning of the financial year and the required achievement of an NPAT gate condition of 90% of budgeted NPAT.

In relation to the completed FY 2019 period the following KPIs and weightings applied to Participants:

| STIP KPI | Weighting | Target Met / Missed Exceeded |
|---|---|---|
| Group NPAT | 20% - 40% | Missed |
| Divisional NPAT | | |
| Franchise Operations NPAT | 10% - 20% | Met |
| Store Operations NPAT | 10% - 20% | Missed |
| Personal Finance NPAT | 10% - 20% | Missed |
| Vehicle Financing NPAT | 10% - 20% | Missed |
| Customer Engagement Score | 10% | Met |
| Risk Scorecard Score | 10% | Met |
| Operational Objectives | 10% - 30% | Varies |
| Individual Effectiveness | 10% | All met or Exceeded |

The realised value of awards in respect of FY 2019 are presented in the statutory remuneration tables.

The KPIs selected were based on their linking to the most significant matters expected to contribute to the success of the Company during FY 2019 in the case of each role. Examples of operational objectives included:

- CIO — 99.95% system and service availability
- Legal Counsel — Lead and manage the Class Actions litigation and any consequent processes in a cost-conscious manner to appropriate outcomes for the Company, within any mandate and framework directed by Board
- CFO — Strategic roadmap funding to be developed/approved/implemented that takes account of the strategic plans agreed by Board

Following the end of the Measurement Period (the financial year), the Company accounts were audited and reports on the Company's activities during the year were prepared for the Board. The Board then assessed the extent to which target levels of performance had been achieved in relation to each KPI and used the pro rata scales (for non-binary measures) to calculate the total award payable. This method of performance assessment was chosen because it is the most objective approach to short-term incentive governance, and reflective of market best practices.

As the gate condition for NPAT was not met the Board chose not to exercise its discretion, available to it under the Rules of the short-term incentive plan, to override the vesting outcome and hence no STI payments were made to other executives.

#### *4.2 Long-Term Incentives*

In FY 2019 grants of Performance Rights were made to executive KMP in relation to the LTI Plan as part of remuneration for FY 2019 (Tranches 23 to 26). These grants have a measurement period of 3 years and hence will not have the possibility of vesting until the end of the measurement period (30 June 2022).

In relation to the completion of the FY 2019 reporting period, grants of equity made under the LTI plan whose measurement period ended at 30 June 2019 (Tranches 17, 18, 19 and 20) did not vest due to the TSR gate not being met (positive TSR) for the period.

The impact of Long-term incentives on changes in equity interest of the KMP are shown in Section 5 of this report.

#### *4.3 Impact of normalisation on incentives*

The Board recognises that it is important for there to be transparency regarding normalisation adjustments and the rationale for adjustments, and therefore the following outlines those matters that were the subject of normalisation, and their impact on KMP remuneration:

- **FY 2019 net adjustments - ($11.613 million) impacting Group profitability assessment**
  - Class Action settlement, Class Action legal fees, restructuring costs and lapsed performance rights
- **FY 2018 net adjustments - ($1.874 million) impacting Group profitability assessment**
  - Reversal to profit and loss for lapsed performance rights ($1.330 million) and other items of a non-recurring nature

#### *4.4 Links between Company strategy and remuneration*

The Company intends to attract the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- positioning Fixed Annual Reward (FAR) around relevant market data benchmarks when they are undertaken, and
- supplementing the FAR with at-risk remuneration, being incentives that motivate executive focus on:
  - short to mid-term objectives linked to the strategy via KPIs and annual performance assessments, and
  - long-term value creation for shareholders by linking a material component of remuneration to those factors that shareholders have expressed should be the long-term focus of executives and the Board.

To the extent appropriate, the Company links strategic implementation and measures of success of the strategy, directly to incentives in the way that measures are selected and calibrated.

### 5. Changes in KMP-held equity

The following tables outline the changes in equity held by KMP over the financial year.

***Fully paid ordinary shares of Cash Converters International Limited***

| | Balance at 1 July 2018 Number | Granted as remuneration Number | Received on exercise of rights Number | Net other change Number | Balance at 30 June 2019 Number |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr S Grimshaw | - | - | - | - | - |
| Mr P Cumins | 7,575,694 | - | - | - | 7,575,694 |
| Ms E Comerford (2) | - | - | - | - | - |
| Mr K Dundo | - | - | - | - | - |
| Mr L Given | - | - | - | - | - |
| Ms A Waters (2) | 68,750 | - | - | - | 68,750 |
| **Other key management personnel** | | | | | |
| Mr M Reid (2) | - | - | - | - | - |
| Mr S Budiselik | 116,875 | - | - | - | 116,875 |
| Mr N Carbone (2) | - | - | - | - | - |
| Mr B Cox | - | - | - | - | - |
| Ms M Cutten (2) | - | - | - | - | - |
| Mr B Edwards | 166,203 | - | - | - | 166,203 |
| Mr M Jenkins | 3,375 | - | - | - | 3,375 |
| | 7,930,897 | - | - | - | 7,930,897 |

(1) Opening balance at date of appointment
(2) Closing balance at date of resignation / ceasing to be KMP

| | Balance at 1 July 2017 Number | Granted as remuneration Number | Received on exercise of rights Number | Net other change Number | Balance at 30 June 2018 Number |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr S Grimshaw | - | - | - | - | - |
| Mr P Cumins | 7,575,694 | - | - | - | 7,575,694 |
| Ms E Comerford | - | - | - | - | - |
| Mr K Dundo | - | - | - | - | - |
| Mr L Given | - | - | - | - | - |
| Ms A Waters | - | - | - | 68,750 | 68,750 |
| **Other key management personnel** | | | | | |
| Mr M Reid | - | - | - | - | - |
| Mr S Budiselik (1) | - | - | - | 116,875 | 116,875 |
| Mr N Carbone | - | - | - | - | - |
| Mr B Cox (1) | - | - | - | - | - |
| Ms M Cutten (1) | - | - | - | - | - |
| Mr B Edwards | 84,511 | - | - | 81,692 | 166,203 |
| Mr M Jenkins | 3,375 | - | - | - | 3,375 |
| Ms A Manners (2) | - | - | - | - | - |
| Mr S Prior | - | - | 8,500 | - | 8,500 |
| | 7,663,580 | - | 8,500 | 267,317 | 7,939,397 |

(1) Opening balance at date of appointment / becoming member of KMP
(2) Closing balance at date of resignation / ceasing to KMP

***Performance rights of Cash Converters International Limited***

| | Balance at 1 July 2018 Number | Granted as remuner-ation Number | Rights exercised Number | Rights lapsed / forfeited (3) Number | Balance at 30 June 2019 Number | Balance vested at 30 June 2019 Number |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Grimshaw | - | - | - | - | - | - |
| Mr P Cumins | 4,572,920 | - | - | (4,572,920) | - | - |
| Mr K Dundo | - | - | - | - | - | - |
| Mr L Given | - | - | - | - | - | - |
| Ms A Waters (2) | - | - | - | - | - | - |
| Ms E Comerford (2) | - | - | - | - | - | - |
| **Other key management personnel** | | | | | | |
| Mr B White (1) | - | 3,687,266 | - | - | 3,687,266 | - |
| Mr S Budiselik | 387,096 | 1,126,664 | - | - | 1,513,760 | - |
| Mr B Cox | - | 682,826 | - | - | 682,826 | - |
| Mr B Edwards | 387,096 | 1,024,240 | - | - | 1,411,336 | - |
| Mr M Jenkins | 494,000 | 819,392 | - | (106,904) | 1,206,488 | - |
| Ms M Cutten (2) | 106,452 | 300,444 | - | (293,852) | 113,044 | - |
| Mr N Carbone (2) | 387,096 | - | - | (387,096) | - | - |
| Mr M Reid (2) | 2,412,640 | - | - | (1,263,354) | 1,149,286 | - |
| | 8,747,300 | 7,640,832 | - | (6,624,126) | 9,764,006 | - |

(1) Opening balance at date of becoming member of KMP
(2) Closing balance at date of ceasing to be KMP
(3) Rights relating to Mr Cumins and Mr Jenkins that lapsed during the period were issued in FY 2017. In addition to 690,146 rights issued in FY 2017 granted to Mr Reid that lapsed during the period, 573,208 rights issued to Mr Reid and 387,096 rights issued to Mr Carbone in FY 2017 and FY 2018, and 293,852 rights issued to Ms Cutten in FY 2018 and FY 2019 were forfeited during the period.

| | Balance at 1 July 2017 Number | Granted as remuner-ation Number | Rights exercised Number | Right lapsed / forfeited (3) Number | Balance at 30 June 2018 Number | Balance vested at 30 June 2018 Number |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Grimshaw | - | - | - | - | - | - |
| Mr P Cumins | 8,302,920 | - | - | (3,730,000) | 4,572,920 | - |
| Ms E Comerford (1) | - | - | - | - | - | - |
| Mr K Dundo | - | - | - | - | - | - |
| Mr L Given | - | - | - | - | - | - |
| Ms A Waters (1) | - | - | - | - | - | - |
| Mr R Webb | - | - | - | - | - | - |
| **Other key management personnel** | | | | | | |
| Mr M Reid | 1,879,660 | 1,377,420 | - | (844,440) | 2,412,640 | - |
| Mr S Budiselik (1) | - | 387,096 | - | - | 387,096 | - |
| Mr N Carbone (1) | - | 387,096 | - | - | 387,096 | - |
| Mr B Cox (1) | - | - | - | - | - | - |
| Ms M Cutten (1) | - | 106,452 | - | - | 106,452 | - |
| Mr B Edwards (1) | - | 387,096 | - | - | 387,096 | - |
| Mr M Jenkins | 630,104 | 387,096 | - | (523,200) | 494,000 | - |
| Ms A Manners (2) | - | 322,580 | - | - | 322,580 | - |
| Mr S Prior | 191,066 | - | (8,500) | (182,566) | | - |
| | 11,003,750 | 3,354,836 | (8,500) | (5,280,206) | 9,069,880 | - |

(1) Opening balance at date of appointment / becoming member of KMP

(2) Closing balance at date of resignation / ceasing to be KMP
(3) Rights relating to Mr Cumins, Mr Reid and Mr Jenkins that lapsed during the period were issued in FY 2016. In addition to 82,018 rights issued in FY 2016 granted to Mr Prior that lapsed during the period, 100,548 rights issued to Mr Prior in FY 2017, were forfeited during the period.

Terms and conditions of share-based payment arrangements affecting remuneration of KMP in the current or future financial years are set out below:

| Tranche | Grant date | Grant date fair value (i) | Exercise price | Expiry date | Vesting date |
|---|---|---|---|---|---|
| | | $ | $ | | |
| Tranche 17 | 23 Nov 2016 | 0.20 | - | 30 Jun 2019 | 30 Jun 2019 |
| Tranche 18 | 23 Nov 2016 | 0.31 | - | 30 Jun 2019 | 30 Jun 2019 |
| Tranche 19 | 12 Dec 2016 | 0.17 | - | 30 Jun 2019 | 30 Jun 2019 |
| Tranche 20 | 12 Dec 2016 | 0.29 | - | 30 Jun 2019 | 30 Jun 2019 |
| Tranche 21 | 14 Feb 2018 | 0.22 | - | 30 Jun 2020 | 30 Jun 2020 |
| Tranche 22 | 14 Feb 2018 | 0.33 | - | 30 Jun 2020 | 30 Jun 2020 |
| Tranche 23 | 19 Dec 2018 | 0.15 | - | 30 Jun 2021 | 30 Jun 2021 |
| Tranche 24 | 19 Dec 2018 | 0.24 | - | 30 Jun 2021 | 30 Jun 2021 |
| Tranche 25 | 26 Mar 2019 | 0.06 | - | 30 Jun 2021 | 30 Jun 2021 |
| Tranche 26 | 26 Mar 2019 | 0.19 | - | 30 Jun 2021 | 30 Jun 2021 |

(i) The grant date fair value is calculated as at the grant date using a Monte Carlo pricing model for tranches 17, 19, 21, 23 and 25 and a binomial pricing model for other tranches.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

The following table outlines the value of equity granted to KMP during the year that may be realised in the future:

| Name | Tranche | Number of rights | Value at grant Per right | Value at grant Total | Value expensed in current year | Value to be expensed in future years |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| Mr B White | 25 | 1,843,633 | 0.06 | 114,305 | 13,269 | 101,036 |
| | 26 | 1,843,633 | 0.19 | 350,290 | 40,662 | 309,628 |
| Mr S Budiselik | 23 | 563,332 | 0.15 | 82,246 | 17,179 | 65,067 |
| | 24 | 563,332 | 0.24 | 135,200 | 28,240 | 106,960 |
| Mr B Cox | 23 | 341,413 | 0.15 | 49,846 | 10,412 | 39,434 |
| | 24 | 341,413 | 0.24 | 81,939 | 17,115 | 64,824 |
| Ms M Cutten | 23 | 28,646 | 0.15 | 4,182 | 4,182 | - |
| | 24 | 28,646 | 0.24 | 6,875 | 6,875 | - |
| Mr B Edwards | 23 | 512,120 | 0.15 | 74,770 | 15,617 | 59,153 |
| | 24 | 512,120 | 0.24 | 122,909 | 25,673 | 97,236 |
| Mr M Jenkins | 23 | 409,696 | 0.15 | 59,816 | 12,494 | 47,322 |
| | 24 | 409,696 | 0.24 | 98,327 | 20,538 | 77,789 |
| Total | | 7,397,680 | | 1,180,705 | 212,256 | 968,449 |

### 6. Non-Executive Director fee policy rates for FY 2019 and FY 2020 and fee limit

Non-executive director fees are managed within the current annual fees limit (AFL or fee pool) of $800,000 which was approved by shareholders on 18 November 2015 and it is anticipated that there will be no requirement for an increase of the AFL in FY 2020.

The following table outlines the Non-Executive Director Remuneration policy rates that were applicable as at the end of FY 2019.

The Non-Executive Director Remuneration policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed. The Board assessed the current level of NED fees for FY 2020 and determined that no change would be applicable to main Board and existing committee fees.

| Function | Role | Fee including superannuation |
|---|---|---|
| Main Board | Chair | $170,000 |
| | Member | $95,000 |
| Audit and risk committee | Chair | $15,000 |
| | Member | $0 |
| Remuneration committee | Chair | $15,000 |
| | Member | $0 |
| Special purpose committee | Chair | $7,500 |
| | Member | $0 |

## 7. Remuneration records for FY 2019 (statutory disclosures)

The following table outlines the remuneration received by directors and senior executives who are classified as KMP of the Company during the years ended 30 June 2019 and 2018, prepared according to statutory disclosure requirements and applicable accounting standards:

| | Short-term employee benefits | | | | Post-employment benefits | Other long-term benefits | Share-based payments | Total |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees | Cash STI | Non-monetary benefits | Termin-ation benefits | Super-annuation | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **2019** | | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Mr S Grimshaw | 170,000 | - | - | - | - | - | - | 170,000 |
| Mr K Dundo | 102,500 | - | - | - | - | - | - | 102,500 |
| Mr L Given | 95,000 | - | - | - | - | - | - | 95,000 |
| Ms E Comerford (1) | 25,114 | - | - | - | 2,386 | - | - | 27,500 |
| Ms A Waters (2) | 49,958 | - | - | - | - | - | - | 49,958 |
| **Executive director** | | | | | | | | |
| Mr P Cumins | 590,144 | - | 70,465 | - | 24,556 | 10,585 | (714,614) | (18,864) |
| **Other executives** | | | | | | | | |
| Mr B White (3) | 227,372 | 649,823 | - | - | 7,847 | - | 53,931 | 938,973 |
| Mr S Budiselik | 337,720 | 250,000 | 11,759 | - | 24,793 | - | 90,716 | 714,988 |
| Mr B Cox | 258,379 | - | 11,759 | - | 20,531 | - | 27,527 | 318,196 |
| Mr B Edwards | 320,416 | - | - | - | 20,531 | - | 86,587 | 427,534 |
| Mr M Jenkins | 312,253 | - | 11,759 | - | 20,531 | 11,995 | 63,191 | 419,729 |
| Mr M Reid (4) | 91,004 | - | 1,924 | 575,154 | 5,868 | - | (79,031) | 594,919 |
| Mr N Carbone (5) | 102,286 | - | 3,849 | 100,000 | 10,266 | - | (16,878) | 199,523 |
| Ms M Cutten (6) | 123,556 | - | 6,796 | 71,923 | 15,399 | - | 21,913 | 239,587 |
| Total | 2,805,702 | 899,823 | 118,311 | 747,077 | 152,708 | 22,580 | (466,658) | 4,279,543 |

| | Short-term employee benefits | | | | Post-employment benefits | Other long-term benefits | Share-based payments | Total |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees | Cash STI | Non-monetary benefits | Termin-ation benefits | Super-annuation | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **2018** | | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Mr S Grimshaw | 170,000 | - | - | - | - | - | - | 170,000 |
| Ms E Comerford | 100,457 | - | - | - | 9,543 | - | - | 110,000 |
| Mr K Dundo | 95,000 | - | - | - | - | - | - | 95,000 |
| Mr L Given | 95,000 | - | - | - | - | - | - | 95,000 |
| Ms A Waters | 117,500 | - | - | - | - | - | - | 117,500 |
| **Executive director** | | | | | | | | |
| Mr P Cumins | 719,748 | 392,117 | 149,237 | - | 24,072 | (1,469) | 135,931 | 1,419,636 |
| **Other executives** | | | | | | | | |
| Mr M Reid | 612,784 | 308,965 | 11,375 | - | 24,457 | - | 87,764 | 1,045,345 |
| Mr S Budiselik (7) | 322,754 | 167,239 | - | - | 27,271 | - | 16,878 | 534,142 |
| Mr N Carbone | 310,424 | 65,772 | 8,585 | - | 20,049 | - | 16,878 | 421,708 |
| Mr B Cox (8) | 31,589 | 50,000 | 961 | - | 1,709 | - | - | 84,259 |
| Ms M Cutten (7) | 238,472 | 50,930 | 8,585 | - | 20,049 | - | 4,641 | 322,677 |
| Mr B Edwards | 330,078 | 166,196 | - | - | 20,049 | - | 16,878 | 533,201 |
| Mr M Jenkins | 311,546 | 154,145 | 11,375 | - | 20,049 | 15,600 | (14,852) | 497,863 |
| Ms A Manners (9) | 129,633 | 32,942 | 5,610 | - | 10,024 | - | - | 178,209 |
| Mr S Prior (10) | 241,337 | - | 11,375 | 99,218 | 20,049 | (2,696) | (11,547) | 357,736 |
| Total | 3,826,322 | 1,388,306 | 207,103 | 99,218 | 197,321 | 11,435 | 252,571 | 5,982,276 |

(1) Resigned 30 September 2018
(2) Resigned 14 December 2018
(3) Became KMP 18 March 2019
(4) Ceased to be KMP 27 August 2018
(5) Ceased to be KMP 9 November 2018
(6) Ceased to be KMP 25 January 2019
(7) Became KMP 3 July 2017
(8) Became KMP 27 May 2018
(9) Ceased to be KMP 1 January 2018
(10) Ceased to be KMP 4 July 2018

The STI values reported in this table are the STIs awarded for the performance period but may be paid in the financial year following the year to which they relate (i.e. the value shown for 2019 is the value earned in FY 2019 and paid during FY 2020).

The LTI value reported in this table is the accounting charge of all grants, amortised over the vesting period. Where a market-based measure of performance is used as a vesting condition, such as iTSR, no adjustments can be made to the profit or loss to reflect rights that lapse unexercised. However, in relation to non-market vesting conditions, such as EPS, adjustments have been made to the profit or loss to reverse amounts previously expensed for rights that have lapsed during the period.

## 8. Employment terms for KMP and Senior Executives

The remuneration and other terms of employment for executive KMP are covered in formal employment contracts of an ongoing nature. All KMP are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment. The treatment of incentives in the case of termination is addressed in separate sections of this report that give details of incentive design. However, a retirement payments clause in KMP employment contracts qualifies that the amounts payable will be limited to the terms of Part 2D.2 of the Corporations Act.

A summary of contract terms in relation to executive KMP is presented below:

| Name | Position held | Period of notice | |
|---|---|---|---|
| | | From Company | From KMP |
| Mr P Cumins | Executive Deputy Chairman | 12 months | 6 months |
| Mr B White | Chief Executive Officer | 12 months | 12 months |
| Mr S Budiselik | Chief Operating Officer | 6 months | 6 months |
| Mr B Cox | General Manager Corporate Distribution | 3 months | 3 months |

| | | | |
|---|---|---|---|
| Mr B Edwards | General Counsel and Company Secretary | 6 months | 6 months |
| Mr M Jenkins | Chief Financial Officer | 6 months | 6 months |

On appointment to the Board, all NEDs enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director and does not include a notice period. NEDs are not eligible to receive termination payments under the terms of the appointments.

**9. Other remuneration-related matters**

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure:

- Mr Brendan White, Chief Executive Officer received loans from the Company between December 2018 and May 2019 totalling $441,216 to assist with the transfer of financial arrangements necessitated from his departure from Bank of Queensland. The loan accrues interest at 5.65% per annum and is scheduled to be repaid in full by 31 December 2019.
- Mr Ben Cox, General Manager Corporate Distribution is a Director and 20% shareholder of Cash Converters Yorkshire Ltd, a franchisee in the UK. As part of the restructure of Cash Converters UK operations, Cash Converters Yorkshire Ltd acquired 17 of the corporate stores from the Company. The purchase of these stores was funded by a loan from Cash Converters (UK) Ltd to Cash Converters Yorkshire Ltd of £2,631,731 made on 4 April 2016 and repayable over 6 years. As at 30 June 2019, the balance owing on the loan was £1,481,145 (30 June 2018: £2,026,954). No repayments of the loan have been missed and the Company has no reason to believe the full repayment of the loan will not be met.
- There were no other relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

The following summarises the treatment of remuneration in respect of those KMP who are no longer employed by the Company during or since the reporting period:

Mr M Reid – payment in lieu of notice under contract - $575,154
Mr N Carbone - payment in lieu of notice under contract - $100,000
Ms M Cutten – redundancy payments and payment in lieu of notice - $71,923

Entitlements under the STIP for the FY 2019 year were forfeited upon termination. Performance rights under the LTIP outstanding to Mr Carbone lapsed, and a portion of those outstanding to Mr Reid and Ms Cutten relating to their uncompleted vesting period lapsed.

**10. External remuneration consultant advice**

During the reporting period, the Board continued their engagement of external remuneration consultants (ERC) to provide KMP remuneration advice. The consultants and the amount payable for the information and work that led to their advice are listed below:

| | | |
|---|---|---|
| Godfrey Remuneration Group | • Fees for work undertaken in July 2019 including provision of a GRG Remuneration Guide accompanied by an advisory letter and re-drafting of the Remuneration Report for FY 2019. | $25,700 |

The Board is satisfied that the KMP remuneration advice received was free from undue influence from KMP to whom the advice related. The Board is satisfied the policy for engaging external remuneration consultants is being adhered to and is operating as intended.

This directors' report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the directors

Stuart Grimshaw
Director

Perth, Western Australia
29 August 2019

The Company's most recent Corporate Governance Statement can be found on the Company's website at http://www.cashconverters.com/Governance.

The following governance-related documents can also be found in the Corporate Governance section of the Company's website:

- Board Charter
- Code of Conduct
- Continuous Disclosure Policy
- Securities Trading Policy
- Audit and Risk Committee Charter
- Remuneration and Nomination Committee Charter
- Gender Equality Report 2018-19
- Short-Term Incentive Policy and Procedure
- Long-Term Incentive Policy and Procedure
- Engaging External Remuneration Consultants Policy
- Non-Executive Director Remuneration Policy and Procedure
- Senior Executive Remuneration Policy and Procedure
- Diversity and Inclusion Policy

## Consolidated statement of profit or loss and other comprehensive income

**For the year ended 30 June 2019**

| | Notes | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Franchise fee revenue | | 15,400 | 14,665 |
| Financial services interest revenue | 2.1 | 186,462 | 166,502 |
| Sale of goods | 2.1 | 75,807 | 74,977 |
| Other revenues | 2.1 | 3,896 | 4,201 |
| **Total revenue** | | 281,565 | 260,345 |
| Financial services cost of sales | 2.2 | (78,104) | (47,620) |
| Cost of goods sold | | (44,803) | (43,859) |
| Other cost of sales | | (2,146) | (3,259) |
| **Total cost of sales** | | (125,053) | (94,738) |
| **Gross profit** | | 156,512 | 165,607 |
| Employee expenses | 2.2 | (71,266) | (69,099) |
| Administrative expenses | 2.2 | (9,033) | (8,005) |
| Advertising expenses | | (7,735) | (10,767) |
| Occupancy expenses | 2.2 | (15,795) | (15,155) |
| Class Action settlement expense | 2.2 | (16,400) | - |
| Other expenses | 2.2 | (29,835) | (21,334) |
| Finance costs | 2.2 | (10,427) | (10,822) |
| Share of net profit of equity accounted investments | 5.1 | 1,613 | 846 |
| **(Loss) / profit before income tax** | | (2,366) | 31,271 |
| Income tax benefit / (expense) | 2.3 | 674 | (8,768) |
| **(Loss) / profit for the year** | | (1,692) | 22,503 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 524 | 495 |
| Other comprehensive income for the year | | 524 | 495 |
| **Total comprehensive (loss) / profit for the year** | | (1,168) | 22,998 |
| **(Loss) / earnings per share** | | | |
| Basic (cents per share) | 2.4 | (0.27) | 4.55 |
| Diluted (cents per share) | 2.4 | (0.27) | 4.43 |

The accompanying notes form an integral part of the consolidated statement of profit or loss and other comprehensive income.

# Consolidated statement of financial position

## As at 30 June 2019

| | Notes | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4.1 | 81,101 | 139,991 |
| Trade and other receivables | 3.1 | 7,794 | 22,701 |
| Loan receivables | 3.2 | 128,374 | 118,962 |
| Inventories | 3.3 | 20,370 | 20,673 |
| Prepayments | | 7,766 | 6,828 |
| Current tax receivable | | 1,897 | - |
| **Total current assets** | | 247,302 | 309,155 |
| **Non-current assets** | | | |
| Trade and other receivables | 3.1 | 6,293 | 5,560 |
| Loan receivables | 3.2 | 46,226 | 32,762 |
| Plant and equipment | 3.4 | 6,173 | 9,141 |
| Deferred tax assets | 2.3 | 14,820 | 8,614 |
| Goodwill | 3.5 | 106,967 | 106,967 |
| Other intangible assets | 3.6 | 26,924 | 30,150 |
| Prepayments | | 3,083 | 1,498 |
| Investments in associates | 5.1 | 6,452 | 5,282 |
| **Total non-current assets** | | 216,938 | 199,974 |
| **Total assets** | | 464,240 | 509,129 |
| **Current liabilities** | | | |
| Trade and other payables | 3.7 | 15,296 | 19,485 |
| Borrowings | 4.2 | 87,826 | 139,351 |
| Provisions | 3.8 | 7,044 | 6,572 |
| Current tax payable | | - | 466 |
| **Total current liabilities** | | 110,166 | 165,874 |
| **Non-current liabilities** | | | |
| Borrowings | 4.2 | 35,510 | 18,996 |
| Provisions | 3.8 | 1,712 | 1,851 |
| **Total non-current liabilities** | | 37,222 | 20,847 |
| **Total liabilities** | | 147,388 | 186,721 |
| **Net assets** | | **316,852** | **322,408** |
| **Equity** | | | |
| Issued capital | 4.4 | 248,714 | 248,714 |
| Reserves | | 7,238 | 7,007 |
| Retained earnings | | 60,900 | 66,687 |
| **Total equity** | | **316,852** | **322,408** |

The accompanying notes form an integral part of the consolidated statement of financial position.

# Consolidated statement of changes in equity
## For the year ended 30 June 2019

| | Notes | Issued capital<br>$'000 | Foreign currency translation reserve<br>$'000 | Share-based payment reserve<br>$'000 | Retained earnings<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2017** | | **210,203** | **5,335** | **1,871** | **43,430** | **260,839** |
| Profit for the year | | - | - | - | 22,503 | 22,503 |
| Exchange differences arising on translation of foreign operations | | - | 495 | - | - | 495 |
| Total comprehensive income for the year | | - | 495 | - | 22,503 | 22,998 |
| Share-based payments | | - | - | 158 | - | 158 |
| Shares issued under entitlement offer, net of issue costs | 4.4 | 38,413 | - | - | - | 38,413 |
| Shares issued on exercise of performance rights | | 98 | - | (98) | - | - |
| Transfer reserve balance to retained earnings | | - | - | (754) | 754 | - |
| **Balance at 30 June 2018** | | **248,714** | **5,830** | **1,177** | **66,687** | **322,408** |
| AASB 9 adjustment to opening retained earnings | 1(b) | - | - | - | (4,669) | (4,669) |
| Balance at 30 June 2018 after AASB 9 adjustment | | 248,714 | 5,830 | 1,177 | 62,018 | 317,739 |
| Loss for the year | | - | - | - | (1,692) | (1,692) |
| Exchange differences arising on translation of foreign operations | | - | 524 | - | - | 524 |
| Total comprehensive loss for the year | | - | 524 | - | (1,692) | (1,168) |
| Share-based payments | | - | - | 281 | - | 281 |
| Transfer reserve balance to retained earnings | | - | - | (574) | 574 | - |
| **Balance at 30 June 2019** | | **248,714** | **6,354** | **884** | **60,900** | **316,852** |

The accompanying notes form an integral part of the consolidated statement of changes in equity.

# Consolidated statement of cash flows
## For the year ended 30 June 2019

| | Notes | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 190,041 | 173,934 |
| Payments to suppliers and employees | | (188,395) | (186,667) |
| Payment for Class Action settlement | 2.2 | (16,400) | - |
| Interest received | | 1,169 | 1,941 |
| Interest received from personal loans | | 73,973 | 62,029 |
| Net decrease / (increase) in personal loans advanced | | (73,052) | (56,421) |
| Interest and costs of finance paid | | (13,257) | (9,937) |
| Income tax refunded / (paid) | | (5,867) | (6,428) |
| Net cash flows used in operating activities | 2.7 | (31,788) | (21,549) |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of intangible assets | 3.6 | (6,634) | (6,897) |
| Proceeds on sale of plant and equipment | | 164 | - |
| Purchase of plant and equipment | | (739) | (2,744) |
| Instalment credit loans repaid by franchisees | | 14,251 | 1,441 |
| Return on equity investment | 5.1 | 680 | - |
| Net cash flows provided by / (used in) investing activities | | 7,722 | (8,200) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 202,500 | 186,000 |
| Repayment of borrowings | | (237,500) | (135,028) |
| Capital element of finance lease and hire purchase payment | | - | (79) |
| Net proceeds from issue of shares | | - | 37,966 |
| Net cash flows provided by / (used in) financing activities | | (35,000) | 88,859 |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | (59,066) | 59,110 |
| **Cash and cash equivalents at the beginning of the year** | | 139,991 | 80,571 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 176 | 310 |
| **Cash and cash equivalents at the end of the year** | 4.1 | **81,101** | **139,991** |

The accompanying notes form an integral part of the consolidated statement of cash flows.

## (1) Basis of preparation

**In this section**
This section sets out the basis upon which the Group's financial statements are prepared as a whole. Specific accounting policies are described in the note to which they relate.

Cash Converters International Limited is a for-profit company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange.

The financial report of the Company for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of directors dated 29 August 2019.

### (a) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except where noted. The financial report is presented in Australian dollars.

The financial report comprises the consolidated financial report of Cash Converters International Limited and its subsidiaries (the Group, as outlined in note 5.2). Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

### (b) Changes to accounting policies

***Adoption of new and revised Accounting Standards***

The Group has adopted all of the new and revised Standards and Interpretations, including amendments to the existing standards issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments has not resulted in any significant changes to the Group's accounting policies nor any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods, except as detailed below in relation to AASB 9 *'Financial Instruments'*.

**(1) Basis of preparation (continued)**

***Standards and interpretations in issue not yet adopted***

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below:

| Standard / Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in financial year ending |
|---|---|---|
| AASB 16 *'Leases'* | 1 January 2019 | 30 June 2020 |
| AASB 2017-4 *'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'* | 1 January 2019 | 30 June 2020 |
| Long-term Interests in Associates and Joint Ventures Amendments to IAS 28 and Illustrative Example—Long-term Interests in Associates and Joint Ventures | 1 January 2019 | 30 June 2020 |
| Prepayment Features with Negative Compensation Amendments to IFRS 9 | 1 January 2019 | 30 June 2020 |

***Impact of changes to Australian Accounting Standards and Interpretations***

A number of Australian Accounting Standards and Interpretations became effective during the year ended 30 June 2019 or are in issue but are not effective for the current year end. The Company has considered the potential impact of these new standards as outlined below.

<u>*AASB 9 'Financial Instruments', and the relevant amending standards*</u>

AASB 9 has been applied from 1 July 2018 and replaces AASB 139 *'Financial instruments: Recognition and measurement'*. AASB 9 significantly changes the recognition of impairment on customer receivables with the standard introducing an expected loss model. Under this approach impairment provisions are recognised based on the life time expected loss on a loan. This differs from the previous incurred loss model under AASB 139 whereby impairment provisions were only recognised when there was objective evidence of impairment. The standard also includes a single approach for the classification and measurement of financial assets based on cash flow characteristics and the business model used for the management of the financial instruments. Of the changes that AASB 9 introduced, the Company has identified the impact of the revised credit provisioning approach, using the expected loss model, as having the most significant impact.

Under this expected loss model, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default:

- Stage 1 – Accounts at initial recognition. The expected loss is based on a 12-month probability of default, based on historic experience.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk. The expected loss is based on a lifetime probability of default (PD), based on historic experience.
- Stage 3 – Accounts which have missed payments and are significantly in arrears. Provisions are based on expected losses based on historic experience.

**(1) Basis of preparation (continued)**

The impact is that impairment losses under AASB 9 are recognised in the profit or loss earlier in the life of the respective loan. This has resulted in a one-off adjustment to provisions for loan receivables and retained earnings / reserves on adoption of AASB 9 as follows:

| | AASB 139 | AASB 9 adjustment | AASB 9 restated |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Loan receivables (current and non-current), net | 151,724 | (6,669) | 145,055 |
| Deferred tax assets | 8,614 | 2,001 | 10,615 |
| Total assets | 509,129 | (4,668) | 504,461 |
| Net assets | 322,408 | (4,668) | 317,740 |
| Retained earnings | 66,687 | (4,668) | 62,019 |
| Total equity | 322,408 | (4,668) | 317,740 |

There have been no other changes in classification and subsequent measurement of the carrying amounts of financial assets and liabilities as a result of adopting AASB 9.

The key changes in significant accounting policies and impacts from the transition are summarised below:

*Classification and subsequent measurement*

*Financial assets*
AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss.

The classification is based on the business model under which the financial asset is managed and its contractual cash flows. Compared to AASB 139, the FVOCI and amortised cost categories have been added and the held-to-maturity, loans and receivables and available for sale classification categories have been removed.

*Amortised cost*
A financial asset is measured at amortised cost if both of the following conditions are met:
(i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the sole payment of principal and interest (SPPI) requirements.

*Fair value through other comprehensive income (FVOCI)*
A financial asset is measured at FVOCI if the following conditions are met:
(i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements.

*Fair value through profit or loss*
Financial assets that are not measured at amortised cost or FVOCI are measured at fair value through profit or loss.

*Financial liabilities*
AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities. Financial liabilities are measured at amortised cost, except for those financial liabilities that are designated to be measured at fair value through profit or loss.

**(1) Basis of preparation (continued)**

*Impairment*
AASB 9 replaces the AASB 139's incurred loss model with an expected credit loss model. Whilst the ultimate credit loss under both AASB 9 and AASB 139 is the same over the lifetime of the asset, AASB 9's expected credit loss (ECL) requirements requires earlier recognition of credit impairments.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, amounts receivable from contracts with customers as defined in AASB 15, loan commitments, certain letters of credit and financial guarantee contracts.

In terms of AASB 9's ECL requirements, the Group applies a three-stage approach to measuring the ECL, as detailed above, based on changes in the financial asset's underlying credit risk and includes forward-looking or macroeconomic information as well as management overlays. The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions used involve uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The determination of the ECL is probability weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events, the time value of money and economic conditions at the reporting date.

The ECL is determined with reference to the following stages:

1. *Stage 1: 12 month ECL*
   At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) or for those financial assets for which there has been an increase in credit risk but for which the credit risk is considered to be low, ECL is determined based on the probability of default (PD), where write off is considered the best indicator of loan default due to the short term nature of personal loans and borrower repayment behaviour, over the next 12 months and the life time losses associated with such PD, adjusted for forward looking information (FLI). Interest income is determined with reference to the financial asset's effective interest rate (EIR) and gross carrying amount.

2. *Stage 2: Lifetime ECL not credit-impaired*
   When there has been a SICR, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Group assesses whether there has been a SICR since initial recognition based on qualitative and quantitative factors including contracted days in arrears, requests for hardship assistance, loans not paying via direct debit, loans that have reached two times the loan amount and loans extended beyond contract terms. The Group also considers reasonable and supportable FLI which includes significant management judgment and use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised.

3. *Stage 3: Lifetime ECL credit-impaired*
   Financial assets are classified as stage 3 where they are determined to be credit impaired, based on the Group's definition of default which includes exposures that are at least 90 days past due. The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, Loss Given Default (LGD) and Exposure at Default (EAD), adjusted for FLI.

**(1) Basis of preparation (continued)**

*AASB 15 'Revenue from Contracts with Customers'*

AASB 15 has been applied from 1 July 2018 and replaces AASB 118 *'Revenue'*, establishing a single, comprehensive five-step model to be applied to all contracts with customers. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group recognises revenue from the following major sources:

- Financial services interest revenue from the provision of short-term and motor vehicle finance loans
- Sales of second-hand goods
- Franchise fee revenue

The Company's impact assessment of all material revenue streams noted no material difference in how they are recognised under AASB 15.

*Revenue recognition - accounting policy*

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer.

*Financial services interest revenue from the provision of short-term and motor vehicle finance loans*
Interest revenue in relation to short-term and vehicle finance loans is recognised over the period to which the revenue relates by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

*Sales of second-hand goods*
Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the good at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

*Franchise fee revenue*
Franchise fees and levies in respect of particular services are recognised as a performance obligation settled over time. Revenue is recognised on a straight-line basis over the period of the service.

*Other categories of revenue*
Other categories of revenue, such as financial services commission, are recognised when control of the goods has transferred to the buyer or as the performance obligation associated with services is satisfied over time. Bank interest is recognised as earned on an accruals basis.

*AASB 16 'Leases'*

AASB 16 replaces AASB 117 *'Leases'* and will be applied from 1 July 2019. AASB 16 will significantly impact the accounting for operating leases as it requires the recognition of a lease liability, being the present value of future lease payments and the recognition of a corresponding right-of-use asset, which will initially be recognised at the same value as the lease liability or lower amount depending on the transition approach adopted. AASB 16 permits either a full retrospective or a modified retrospective approach for the adoption. The Group plans to apply the modified retrospective approach in adopting AASB 16 meaning that it will apply AASB 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with AASB 117. This election will apply consistently to all leases.

**(1) Basis of preparation (continued)**

The adoption of AASB 16 will primarily affect the accounting for the Group's operating leases, including property leases at the corporate store network of 69 stores and head office. As at 30 June 2019, the consolidated entity's future minimum lease payments under non-cancellable operating leases amounted to $38.626 million on an undiscounted basis as detailed in Note 6.2. A preliminary assessment indicates that $152 thousand of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset and lease liability in the range of $57 million to $64 million in respect of these leases. Management is still assessing the incremental borrowing rate to be applied to present value calculations. The provision for onerous lease contracts which was required under AASB 117 of $253 thousand will be derecognised.

In addition, the recognition of expenses related to these leases will now change under AASB 16. The standard replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The financial statements will therefore report an increased EBITDA, however current estimates indicated a reduction in net profit (in the first year at least) following the application of the standard of $1 million to $2 million.

Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117). Because of this change, the Group will reclassify certain of its sublease agreements as finance leases. As required by AASB 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised, and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

**(c) Key judgements and estimates**

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

*Significant accounting judgements*
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amount recognised in the financial statements:

- Recoverability of deferred tax assets – see note 2.3(g))
- Classification of contingent liabilities – see note 6.1

*Significant accounting estimates and assumptions*
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- Impairment of goodwill and other intangible assets – see note 3.5 and 3.6
- Useful lives of other intangible assets – see note 3.6
- Impairment of financial assets (including loan receivables) – see note 3.2
- Impairment for inventory obsolescence – see note 3.3

**(1) Basis of preparation (continued)**

**(d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Cash Converters International Limited and entities controlled by the Company and its subsidiaries (the Group, as outlined in note 5.2). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**(e) Foreign currency**

Both the functional and presentation currency of Cash Converters International Limited and its Australian subsidiaries is Australian dollars ($). The functional and presentation currency of the non-Australian Group companies is the national currency of the country of operation.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Australian dollars at the rate of exchange ruling at the reporting date and the statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity, the foreign currency translation reserve.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Foreign currency differences arising on translation are recognised in the income statement.

**(f) Other accounting policies**

Significant and other accounting policies that summarise the measurement basis used, and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

**(1) Basis of preparation (continued)**

**(g) Rounding**

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## (2) Financial performance

**In this section**
This section explains the results and performance of the Group. This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

a) Accounting policies that are relevant for understanding the items recognised in the financial statements; and
b) Analysis of the Group's result for the year by reference to key areas, including revenue, results by operating segment and income tax.

### 2.1 Revenue

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| *Financial services interest revenue* | | |
| Personal loan interest and establishment fees | 120,853 | 104,270 |
| Pawnbroking fees | 30,490 | 29,383 |
| Cash advance fee income | 17,742 | 22,150 |
| Vehicle loan interest and establishment fees | 16,679 | 8,639 |
| Other financial services revenue | 698 | 2,060 |
| | 186,462 | 166,502 |
| *Sale of goods* | | |
| Retail sales | 75,538 | 74,121 |
| Vehicle trade sales | 269 | 856 |
| | 75,807 | 74,977 |
| *Other revenue* | | |
| Bank interest | 929 | 741 |
| Other vehicle revenue | 1,005 | 1,831 |
| Other revenue | 1,962 | 1,629 |
| | 3,896 | 4,201 |

*Accounting policies*

Franchise fees
Franchise fees and levies in respect of particular services are recognised as income when they become due and receivable and the costs in relation to the income are recognised as expenses when incurred.

Personal loan, cash advance, vehicle finance loan, vehicle lease and pawnbroking interest
Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## 2.1 Revenue (continued)

Loan establishment fee revenue

Establishment fees are deferred and recognised over the life of the loans at the effective interest rate applicable so as to recognise revenue at a constant rate to the underlying principal over the expected life of the loan.

Other vehicle revenue

Charges relating to the vehicle leases such as vehicle maintenance, warranty, registration and insurance are recognised over the life of the lease.

Other categories of revenue

Other categories of revenue, such as financial services commission and retail sales, are recognised when the Group has transferred the risks and rewards of the goods to the buyer or when the services are provided. Bank interest is recognised as earned on an accruals basis.

## 2.2 Expenses

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| *Financial services cost of sales* | | | |
| Net bad and doubtful debt expense | 3.2 | 60,409 | 31,660 |
| Commissions | | 13,644 | 12,204 |
| Other financial services cost of sales | | 4,051 | 3,756 |
| | | 78,104 | 47,620 |

Refer below for details of finance costs.

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| *Employee expenses* | | | |
| Employee benefits | | 65,990 | 64,091 |
| Share-based payments | | 281 | 159 |
| Superannuation expense | | 4,995 | 4,849 |
| | | 71,266 | 69,099 |
| *Administrative expenses* | | | |
| General administrative expenses | | 2,883 | 2,503 |
| Communications expenses | | 1,478 | 1,669 |
| IT expenses | | 3,723 | 2,923 |
| Travel costs | | 949 | 910 |
| | | 9,033 | 8,005 |
| *Occupancy expenses* | | | |
| Rent | | 11,221 | 11,220 |
| Outgoings | | 1,975 | 1,791 |
| Other | | 2,599 | 2,144 |
| | | 15,795 | 15,155 |

## 2.2 Expenses (continued)

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Other expenses* | | |
| Legal fees | 3,742 | 3,097 |
| Professional and registry costs | 6,772 | 5,394 |
| Auditing and accounting services | 566 | 343 |
| Bank charges | 831 | 876 |
| Other expenses from ordinary activities | 4,702 | 3,941 |
| Depreciation | 2,903 | 3,081 |
| Amortisation | 6,242 | 4,364 |
| Loss on write down of assets | 4,077 | 238 |
| | 29,835 | 21,334 |

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Finance costs* | | |
| Interest | 10,427 | 10,820 |
| Finance lease charge | - | 2 |
| | 10,427 | 10,822 |

*Class Action settlement expense*
On 22 October 2018, the Company reached a settlement in relation to the McKenzie Class Action, under the terms of which the Company paid $10.600 million into a fund for distribution to members of the class, and a further $5.800 million of legal, administrative and other costs.

*Accounting policies*

Employee benefits expense
The Group's accounting policy for liabilities associated with employee benefits is set out in note 3.8. The policy relating to share-based payments is set out in note 6.5.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 4.2 below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment
Impairment expenses are recognised to the extent that the carrying amount of assets exceeds their recoverable amount. Refer to note 3.5 for further details on impairment.

## 2.3 Taxation

This note sets out the Group tax accounting policies and provides an analysis of the Group's income tax expense / benefit and deferred tax balances, including a reconciliation of tax expense to accounting profit.

Income tax is accounted for using the balance sheet method. Accounting income is not always the same as taxable income, creating timing differences. These differences usually reverse over time. Until they reverse, a deferred tax asset or liability must be recognised in the statement of financial position.

### (a) Consolidated income statement

The major components of tax expense are:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Current income tax expense* | | |
| Current year | 3,622 | 7,257 |
| Adjustment for prior years | (143) | (330) |
| *Deferred income tax expense* | | |
| Temporary differences | (4,177) | 1,810 |
| Adjustment for prior years | 24 | 31 |
| Income tax (benefit) / expense reported in income statement | (674) | 8,768 |
| | | |
| **Tax reconciliation** | | |
| Profit / (loss) before tax from continuing operations | (2,366) | 31,271 |
| | | |
| Income tax at the statutory rate of 30% (2018: 30%) | (710) | 9,381 |
| Research and development tax benefits recognised | - | (298) |
| Adjustments relating to prior years | (119) | (1) |
| Income tax rate differential | (19) | (263) |
| Non-deductible items | 66 | 325 |
| Tax effect of share-based payment expense | 84 | 48 |
| Recognition of previously impaired tax losses | 24 | (424) |
| Income tax (benefit) / expense on profit before tax | (674) | 8,768 |

### (b) Deferred tax

Deferred income tax in the statement of financial position relates to the following:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Deferred tax assets* | | |
| Allowance for doubtful debts | 11,553 | 6,462 |
| Accruals | 612 | 671 |
| Provision for employee entitlements | 2,137 | 1,945 |
| Other provisions | 108 | - |
| Other | 270 | 477 |
| Carry forward losses | 2,799 | 2,750 |
| | 17,479 | 12,305 |

## 2.3 Taxation (continued)

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Deferred tax liabilities* | | |
| Fixed assets | (1,440) | (2,493) |
| Intangible assets | (1,181) | (1,198) |
| Other | (38) | - |
| | (2,659) | (3,691) |
| Net deferred tax assets | 14,820 | 8,614 |
| *Reconciliation of net deferred tax assets* | | |
| Opening balance at beginning of period | 8,614 | 9,879 |
| Tax expense during period recognised in profit or loss | 4,177 | (1,810) |
| Tax benefit during period recognised in equity | 2,001 | 446 |
| Prior year adjustment | (24) | (31) |
| Other | 52 | 130 |
| Closing balance at end of period | 14,820 | 8,614 |

### (c) Unrecognised deferred tax balances

Deferred income tax relating to the UK in the balance sheet excludes the following:

| | | |
|---|---|---|
| Tax losses - revenue | 4,254 | 4,160 |

### (d) Carry forward tax losses

Carry forward losses of $2.799 million (2018: $2.750 million) have been recognised in relation to the Group's UK operations, which are profitable in the current year, however have had a recent history of losses. Refer to note 2.3(g) for further information supporting the recognition of these losses.

### (e) Tax consolidation

*Relevance of tax consolidation to the Group*

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Cash Converters International Limited. The members of the tax-consolidated group are identified in note 5.2.

*Nature of tax funding arrangements and tax sharing agreements*

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Cash Converters International Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligation. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

## 2.3 Taxation (continued)

### (f) Accounting policies

*Current taxes*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, taxation authorities. All are calculated at the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

*Deferred taxes*

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affect neither taxable income nor accounting profit. A deferred tax liability is not recognised in relation to the temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### (g) Key estimate: deferred tax assets

A net deferred tax asset of $14.820 million (2018: $8.614 million) has been recognised in the consolidated statement of financial position. This includes $2.799 million (2018: $2.750 million) of carried forward tax losses in relation to the Group’s UK operations, which although profitable in the current year, have a recent history of losses. The UK tax losses have an indefinite availability period subject to satisfaction of the same ownership and continuity of business tests. A deferred tax asset for the UK operations has only been recognised to the extent tax losses are expected to be recoverable against future earnings.

In making this assessment, a forward-looking estimation of taxable profit was made, based on management’s best estimate of future UK performance from continuing operations as at 30 June 2019.

Continuing operations in Australia were profitable during the current year and the Australian tax group is expected to continue to be profitable, therefore supporting the recognition of net deferred tax assets arising from temporary differences in Australia.

## 2.4 Earnings per share

Earnings per share (EPS) is the amount of post-tax profit / (loss) attributable to each share. Basic EPS is calculated on the Company's statutory profit for the year divided by the weighted average number of shares outstanding. Diluted EPS adjusts the basic EPS for the dilutive effect of any instruments, such as options, that could be converted into ordinary shares. The calculation of basic earnings per share has been based on the following profit / (loss) attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

***Reconciliation of earnings used in calculating earnings per share***

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| *Basic and diluted earnings per share* | | |
| (Loss) / profit attributable to shareholders of the Company used in calculating earnings per share | (1,692) | 22,503 |

***Weighted average number of shares used as the denominator***

| | Number | Number |
|---|---|---|
| Weighted average number of shares - basic | 616,437,946 | 494,462,348 |
| Dilutive effect of performance rights | 12,210,611 | 13,981,247 |
| Weighted average number of shares - diluted | 628,648,557 | 508,443,595 |

The number of potential ordinary shares not included in the above calculation is 10,973,771 (2018: 9,819,506), equating to a weighted average dilutive effect of 12,210,611 (2018: 13,981,247).

## 2.5 Segment information

The Group's operating segments are organised and managed separately according to the nature of their operations. Each segment represents a strategic business unit that provides different services to different categories of customer. The Chief Executive Officer (chief operating decision-maker) monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. The Group's reportable segments under AASB 8 *'Operating Segments'* are therefore as follows:

*Franchise operations*
This involves the sale of franchises for the retail sale of new and second-hand goods and the sale of master licenses for the development of franchises in countries around the world.

*Store operations*
This segment involves the retail sale of new and second-hand goods, cash advance and pawnbroking operations at corporate owned stores in Australia.

*Personal finance*
This segment comprises the Cash Converters Personal Finance personal loans business and Mon-E, which is responsible for providing the administration services for the Cash Converters network in Australia to offer small cash advance loans to customers.

*Vehicle financing*
This segment comprises Green Light Auto Group Pty Ltd, which provides motor vehicle finance since March 2016, and fully maintained vehicles through a lease product to customers for a term of up to 4 years (a product that the Group ceased to offer during the 2016 financial year).

The accounting policies of the reportable segments are the same as the Group's accounting policies.

## 2.5 Segment information (continued)

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' fees and expenses, interest income and expense in relation to corporate facilities and tax expense. This is the measure reported to the chief executive officer (chief operating decision maker) for the purpose of resource allocation and assessment of segment performance.

| | Franchise operations $'000 | Store operations $'000 | Personal finance $'000 | Vehicle financing $'000 | Corporate head office $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Year ended 30 June 2019*** | | | | | | |
| Interest revenue (i) | 1,771 | 52,677 | 128,241 | 16,886 | - | 199,575 |
| Other revenue | 18,895 | 75,496 | 52 | 1,274 | - | 95,717 |
| Gross revenue | 20,666 | 128,173 | 128,293 | 18,160 | - | 295,292 |
| Less inter-company sales | (1,542) | (9,957) | (3,157) | - | - | (14,656) |
| Segment revenue | 19,124 | 118,216 | 125,136 | 18,160 | - | 280,636 |
| External interest revenue (ii) | - | - | 10 | - | 919 | 929 |
| Total revenue | 19,124 | 118,216 | 125,146 | 18,160 | 919 | 281,565 |
| | | | | | | |
| EBITDA (iii) | 12,322 | 10,235 | 41,182 | 859 | (43,315) | 21,283 |
| Less inter-company eliminations | (902) | 3,662 | (2,767) | 7 | - | - |
| Segment EBITDA | 11,420 | 13,897 | 38,415 | 866 | (43,315) | 21,283 |
| Depreciation and amortisation | (1,532) | (2,762) | (166) | (322) | (8,440) | (13,222) |
| EBIT | 9,888 | 11,135 | 38,249 | 544 | (51,755) | 8,061 |
| Interest expense | - | - | (7,104) | (2,528) | (795) | (10,427) |
| Profit / (loss) before tax | 9,888 | 11,135 | 31,145 | (1,984) | (52,550) | (2,366) |
| Income tax benefit | | | | | | 674 |
| Loss for the year | | | | | | (1,692) |
| | | | | | | |
| ***Year ended 30 June 2018*** | | | | | | |
| Interest revenue (i) | 2,987 | 53,376 | 112,729 | 9,281 | - | 178,373 |
| Other revenue | 18,487 | 73,476 | 328 | 2,687 | - | 94,978 |
| Gross revenue | 21,474 | 126,852 | 113,057 | 11,968 | - | 273,351 |
| Less inter-company sales | (1,868) | (8,312) | (3,567) | - | - | (13,747) |
| Segment revenue | 19,606 | 118,540 | 109,490 | 11,968 | - | 259,604 |
| External interest revenue (ii) | - | - | - | 1 | 740 | 741 |
| Total revenue | 19,606 | 118,540 | 109,490 | 11,969 | 740 | 260,345 |
| | | | | | | |
| EBITDA (iii) | 13,666 | 11,285 | 49,926 | 2,565 | (27,666) | 49,776 |
| Less inter-company eliminations | (1,262) | 4,502 | (3,249) | 9 | - | - |
| Segment EBITDA | 12,404 | 15,787 | 46,677 | 2,574 | (27,666) | 49,776 |
| Depreciation and amortisation | (124) | (3,267) | (186) | (564) | (3,542) | (7,683) |
| EBIT | 12,280 | 12,520 | 46,491 | 2,010 | (31,208) | 42,093 |
| Interest expense | (276) | - | (5,073) | (1,128) | (4,345) | (10,822) |
| Profit / (loss) before tax | 12,004 | 12,520 | 41,418 | 882 | (35,553) | 31,271 |
| Income tax expense | | | | | | (8,768) |
| Profit for the year | | | | | | 22,503 |

(i) Interest revenue comprises personal loan interest, cash advance fee income, pawnbroking interest from customers and commercial loan interest from third parties

(ii) External interest is interest received on bank deposits

(iii) EBITDA is earnings before interest, tax, depreciation, amortisation and impairment

## 2.5 Segment information (continued)

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| ***Group assets by reportable segment*** | | |
| Franchise operations | 33,709 | 37,728 |
| Store operations | 75,282 | 80,822 |
| Personal finance | 213,365 | 219,941 |
| Vehicle financing | 63,256 | 47,129 |
| Total of all segments | 385,612 | 385,620 |
| Unallocated assets | 78,628 | 123,509 |
| Consolidated total assets | 464,240 | 509,129 |

Unallocated assets include various corporate assets including cash held at a corporate level that has not been allocated to the underlying segments.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| ***Group liabilities by reportable segment*** | | |
| Franchise operations | 6,075 | 5,663 |
| Store operations | 8,008 | 7,559 |
| Personal finance | 128,394 | 118,127 |
| Vehicle financing | 225 | 1,681 |
| Total of all segments | 142,702 | 133,030 |
| Unallocated liabilities | 4,686 | 53,691 |
| Consolidated total liabilities | 147,388 | 186,721 |

Unallocated liabilities include Group borrowings not specifically allocated to the underlying segments.

***Other segment information***

| | Depreciation, amortisation and impairment | | Additions to non-current assets | |
|---|---|---|---|---|
| | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| Franchise operations | 1,532 | 124 | 1,452 | 1,640 |
| Store operations | 2,597 | 3,111 | 782 | 1,590 |
| Personal finance | 166 | 184 | 2,098 | 2,637 |
| Vehicle financing | 258 | 484 | 1,471 | 2,339 |
| Total of all segments | 4,553 | 3,903 | 5,803 | 8,206 |
| Unallocated | 5,795 | 3,542 | 1,449 | 1,528 |
| Total | 10,348 | 7,445 | 7,252 | 9,734 |

## 2.5 Segment information (continued)

***Geographical information***

The Group operates in two principal geographical areas – Australia (country of domicile) and the United Kingdom. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| Australia | 269,246 | 248,480 | 138,167 | 143,831 |
| United Kingdom | 11,744 | 11,222 | 2,037 | 2,427 |
| Rest of world | 575 | 643 | - | - |
| | 281,565 | 260,345 | 140,204 | 146,258 |

Non-current assets include property, plant and equipment, goodwill and other intangible assets, and exclude deferred tax assets, trade and other receivables and other financial assets.

## 2.6 Dividends

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Per share cents | Total $'000 | Per share cents | Total $'000 |
| ***Recognised amounts*** | | | | |
| Final dividend – prior year 100% franked at 30% | - | - | - | - |
| Interim dividend – current year 100% franked at 30% | - | - | - | - |
| | - | - | - | - |
| ***Unrecognised amounts*** | | | | |
| Final dividend – current year 100% franked at 30% | - | - | - | - |

The Company did not pay a dividend in respect of the financial year ended 30 June 2018.

On 29 August 2019 the Company announced that there would be no final dividend in respect of the financial year ended 30 June 2019.

The Company has Australian franking credits available of $69.339 million on a tax paid basis (2018: $66.109 million).

### 2.7 Notes to cash flow statement

***Reconciliation of profit to net cash flow from operating activities:***

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Profit / (loss) after tax | (1,692) | 22,503 |
| Non-cash adjustment to reconcile profit after tax to net cash flows: | | |
| Amortisation | 7,445 | 4,364 |
| Depreciation | 2,903 | 3,081 |
| Share-based payments | 281 | 159 |
| Loss on disposal of non-current assets | 2,873 | 238 |
| Share of net (profit) / loss of equity accounted investment | (1,632) | (848) |
| Changes in assets and liabilities: | | |
| Trade and loan receivables | (29,324) | (47,608) |
| Inventories | 301 | 321 |
| Other assets | (2,520) | (2,784) |
| Trade and other payables | (3,684) | (2,121) |
| Provisions | (219) | (1,196) |
| Income tax payables | (6,520) | 2,342 |
| Net cash provided by operating activities | (31,788) | (21,549) |

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## (3) Assets and liabilities

**In this section**
This section shows the assets used to generate Cash Converters' trading performance and the liabilities incurred as a result. Information on other assets and liabilities are in the following sections:

- Section 2 – Deferred tax assets and liabilities
- Section 4 – Financing activities
- Section 5 – Equity-accounted investments

### 3.1 Trade and other receivables

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| ***Current*** | | | |
| Trade receivables | (i) | 1,151 | 1,537 |
| Allowance for impairment losses | | (26) | (136) |
| Total trade receivables (net) | | 1,125 | 1,401 |
| Finance lease receivables | (ii) | 128 | 157 |
| Vendor finance loans | (iii) | 1,817 | 2,068 |
| Loan to associate | (iv) | - | 14,981 |
| Other receivables | (v) | 4,724 | 4,094 |
| Total trade receivables | | 7,794 | 22,701 |

### 3.1 Trade and other receivables (continued)

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| ***Non-current*** | | | |
| Finance lease receivables | (ii) | - | 534 |
| Vendor finance loans | (iii) | 3,358 | 5,014 |
| Loan to associate | (iv) | 2,913 | - |
| Other receivables | (v) | 22 | 12 |
| Total trade and other receivables | | 6,293 | 5,560 |

(i) Trade receivables include weekly franchise fees, wholesale sales, pawnbroking fees, cash advance fees, default fees and OTC fees. Where the collection of the debtor is doubtful, an allowance for impairment losses is recognised. The average credit period on sales is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter, interest is charged at 2% per month on the outstanding balance.

(ii) The Group entered into finance lease arrangements with customers for leasing of vehicles. All leases are denominated in Australian dollars. The average term of finance leases entered into is 4 years. The Group ceased entering into such finance lease arrangements from March 2016.

(iii) Vendor finance loans are loans made to purchasers of the Group's UK corporate stores during the year ended 30 June 2017 as part of the purchase agreement. The loans have various terms of up to 6 years, and bear interest at rates between nil and 9%. The receivables are held at amortised cost. No receivables are past due or impaired at 30 June 2019 (2018: nil).

(iv) Commercial loan advanced to Cash Converters Holdings LP (New Zealand master franchisee) with a maturity date of 14 September 2023. Interest is charged quarterly at a rate of 5% per annum.

(v) Other receivables include GST receivable, development agent fees outstanding, sub-master license sales, Mon-E fees, financial commission and instalment credit loans. None of these receivables are past due or considered impaired (2018: nil).

As at 30 June the ageing analysis of trade receivables was as follows:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| 0 to 30 days | 688 | 963 |
| 31 to 60 days past due not impaired | 109 | 39 |
| 61 to 90 days past due not impaired | 32 | 104 |
| 90 + days past due not impaired | 296 | 295 |
| Considered impaired | 26 | 136 |
| Balance at end of year | 1,151 | 1,537 |

*Accounting policy*

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as trade and other receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

### 3.1 Trade and other receivables (continued)

***Allowance for impairment losses***

As at 30 June 2019, trade receivables and instalment credit loans of $26 thousand (2018: $136 thousand) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Balance at beginning of year | 136 | 58 |
| Impairment losses recognised on receivables | (109) | 88 |
| Amounts written off as uncollectible | - | (12) |
| Foreign currency exchange differences | (1) | 2 |
| Balance at end of year | 26 | 136 |

***Amounts receivable under finance leases***

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 | 2019<br>$'000 | 2018<br>$'000 |
| Not later than one year | 579 | 1,725 | 487 | 937 |
| Later than one year and not later than five years | - | 504 | - | 534 |
| | 579 | 2,229 | 487 | 1,471 |
| Less unearned finance income | (92) | (758) | - | - |
| Present value of minimum lease payments receivable | 487 | 1,471 | 487 | 1,471 |
| Allowance for uncollectible lease payments | (282) | (780) | (282) | (780) |
| | 205 | 691 | 205 | 691 |

Unguaranteed residual values of assets leased under finance leases at the end of the reporting period are estimated at $177 thousand (30 June 2018: $491 thousand). The residual amounts have been excluded from the above calculations in the present value amounts – the amounts only relate to the minimum repayments.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 27.5% (30 June 2018: 26.0%) per annum.

## 3.2 Loan receivables

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| ***Current*** | | | |
| Personal short-term loans (unsecured) | (i) | 147,020 | 134,311 |
| Allowance for impairment losses | | (27,143) | (18,358) |
| Deferred establishment fees | | (4,712) | (5,736) |
| Total personal short-term loans (net) | | 115,165 | 110,217 |
| Vehicle finance loans (secured) | (ii) | 16,429 | 10,765 |
| Allowance for impairment losses | | (2,242) | (1,506) |
| Deferred establishment fees | | (978) | (514) |
| Total vehicle finance loans (net) | | 13,209 | 8,745 |
| Total loan receivables | | 128,374 | 118,962 |
| ***Non-current*** | | | |
| Personal short-term loans (unsecured) | (i) | 5,998 | 3,277 |
| Allowance for impairment losses | | (992) | (164) |
| Total personal loans (net) | | 5,006 | 3,113 |
| Vehicle finance loans (secured) | (ii) | 50,430 | 31,305 |
| Allowance for impairment losses | | (6,209) | (162) |
| Deferred establishment fees | | (3,001) | (1,494) |
| Total vehicle finance loans (net) | | 41,220 | 29,649 |
| Total loan receivables | | 46,226 | 32,762 |

(i) The credit period provided in relation to personal short-term unsecured loans varies from 30 days to 12 months. Interest is charged on these loans at a fixed rate which varies dependent on the state or country of origin. An allowance has been made for estimated unrecoverable amounts arising from loans already issued, which has been determined by reference to past default experience. Before accepting any new customers, the Group uses an external scoring system to assess the potential customer's credit quality and define credit limits by customer. There is no concentration of credit risk within the personal loan book.

(ii) Vehicle finance loans are secured loans advanced for financing the purchase of vehicles. The average remaining term of these loans is 3.5 years (2018: 4.5 years) and the average interest rate is 25.0% (2017: 25.6%).

As at 30 June the ageing analysis of personal loan receivables was as follows:

| | | |
|---|---|---|
| 0 to 30 days | 111,954 | 109,781 |
| 31 to 60 days past due not impaired | 7,170 | 3,254 |
| 61 to 90 days past due not impaired | 3,495 | 3,892 |
| 90 + days past due not impaired | 2,264 | 2,446 |
| Considered impaired | 28,135 | 18,215 |
| Balance at end of year | 153,018 | 137,588 |

As at 30 June the ageing analysis of vehicle finance loan receivables was as follows:

| | | |
|---|---|---|
| 0 to 30 days | 44,245 | 38,147 |
| 31 to 60 days past due not impaired | 4,155 | 1,464 |
| 61 to 90 days past due not impaired | 2,729 | 440 |
| 90 + days past due not impaired | 7,279 | 351 |
| Considered impaired | 8,451 | 1,668 |
| Balance at end of year | 66,859 | 42,070 |

### 3.2 Loan receivables (continued)

***Allowance for impairment losses***
In determining the recoverability of a personal loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit loss allowance required in excess of the loss allowance.

The following table explains changes in the loss allowance between the beginning and end of the year:

| **Personal loan receivables**<br>**Loss allowance** | **Stage 1**<br>**12 month ECL**<br>**$'000** | **Stage 2**<br>**Lifetime ECL**<br>**$'000** | **Stage 3**<br>**Lifetime ECL**<br>**$'000** | **Total**<br>**$'000** |
|---|---|---|---|---|
| Balance at 1 July 2018 | | | | 18,522 |
| AASB 9 adjustment to opening allowance for impairment losses | | | | 3,765 |
| Balance at 1 July 2018 after AASB 9 adjustment | 8,742 | 8,691 | 4,854 | 22,287 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (680) | 680 | - | - |
| Transfers from Stage 1 to Stage 3 | (437) | - | 437 | - |
| Transfers from Stage 2 to Stage 1 | 83 | (83) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (325) | 325 | - |
| Transfers from Stage 3 to Stage 1 | 38 | - | (38) | - |
| Transfers from Stage 3 to Stage 2 | - | 397 | (397) | - |
| New financial assets originated | 9,276 | 8,362 | 6,058 | 23,696 |
| Changes in PDs/LGDs/EADs | (778) | (98) | 1,113 | 237 |
| Changes to model assumptions and methodologies | 408 | 161 | 74 | 643 |
| Write-offs | (6,896) | (7,697) | (4,135) | (18,728) |
| *Total net change during the period* | 1,014 | 1,397 | 3,437 | 5,848 |
| Balance at 30 June 2019 | 9,756 | 10,088 | 8,291 | 28,135 |

The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the loss allowance:

| **Personal loan receivables**<br>**Gross carrying amount** | **Stage 1**<br>**12 month ECL**<br>**$'000** | **Stage 2**<br>**Lifetime ECL**<br>**$'000** | **Stage 3**<br>**Lifetime ECL**<br>**$'000** | **Total**<br>**$'000** |
|---|---|---|---|---|
| Balance at 1 July 2018 | 104,896 | 22,997 | 9,695 | 137,588 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (6,290) | 6,290 | - | - |
| Transfers from Stage 1 to Stage 3 | (3,509) | - | 3,509 | - |
| Transfers from Stage 2 to Stage 1 | 325 | (325) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (986) | 986 | - |
| Transfers from Stage 3 to Stage 1 | 91 | - | (91) | - |
| Transfers from Stage 3 to Stage 2 | - | 1,178 | (1,178) | - |
| New financial assets originated | 105,560 | 22,682 | 12,742 | 140,984 |
| Changes in PDs/LGDs/EADs | (5,062) | (5,216) | (592) | (10,870) |
| Write-offs | (87,643) | (19,329) | (7,712) | (114,684) |
| *Total net change during the period* | 3,472 | 4,294 | 7,664 | 15,430 |
| Balance at 30 June 2019 | 108,368 | 27,291 | 17,359 | 153,018 |

### 3.2 Loan receivables (continued)

In determining the recoverability of a vehicle finance loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. As the current customer base is relatively small, the Group has made a provision based on known historical losses and reasonable estimation of expected future losses. As these loans are secured by the underlying vehicle financed, the total loss will be reduced by the recoverable amount. Accordingly, the directors believe that there is no further credit loss allowance required in excess of the loss allowance for doubtful debts.

The following table explains changes in the loss allowance between the beginning and end of the year:

| **Vehicle finance loan receivables Loss allowance** | **Stage 1 12 month ECL $'000** | **Stage 2 Lifetime ECL $'000** | **Stage 3 Lifetime ECL $'000** | **Total $'000** |
|---|---|---|---|---|
| Balance at 1 July 2018 | | | | 1,668 |
| AASB 9 adjustment to opening allowance for impairment losses | | | | 2,905 |
| Balance at 1 July 2018 after AASB 9 adjustment | 1,071 | 1,626 | 1,876 | 4,573 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (130) | 130 | - | - |
| Transfers from Stage 1 to Stage 3 | (122) | - | 122 | - |
| Transfers from Stage 2 to Stage 1 | 195 | (195) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (664) | 664 | - |
| Transfers from Stage 3 to Stage 1 | 59 | - | (59) | - |
| Transfers from Stage 3 to Stage 2 | - | 92 | (92) | - |
| New financial assets originated | 1,005 | 1,289 | 940 | 3,234 |
| Changes in PDs/LGDs/EADs | 131 | 762 | 1,687 | 2,580 |
| Changes to model assumptions and methodologies | (37) | (61) | (64) | (162) |
| Write-offs | (174) | (442) | (1,158) | (1,774) |
| *Total net change during the period* | 927 | 911 | 2,040 | 3,878 |
| Balance at 30 June 2019 | 1,998 | 2,537 | 3,916 | 8,451 |

The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the provision as discussed above:

| **Vehicle finance loan receivables Gross carrying amount** | **Stage 1 12 month ECL $'000** | **Stage 2 Lifetime ECL $'000** | **Stage 3 Lifetime ECL $'000** | **Total $'000** |
|---|---|---|---|---|
| Balance at 1 July 2018 | 32,483 | 5,215 | 4,372 | 42,070 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (3,676) | 3,676 | - | - |
| Transfers from Stage 1 to Stage 3 | (3,049) | - | 3,049 | - |
| Transfers from Stage 2 to Stage 1 | 637 | (637) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (2,073) | 2,073 | - |
| Transfers from Stage 3 to Stage 1 | 129 | - | (129) | - |
| Transfers from Stage 3 to Stage 2 | - | 191 | (191) | - |
| New financial assets originated | 33,028 | 3,701 | 1,987 | 38,716 |
| Changes in PDs/LGDs/EADs | (4,082) | (744) | (48) | (4,874) |
| Write-offs | (4,894) | (1,407) | (2,752) | (9,053) |
| *Total net change during the period* | 18,093 | 2,707 | 3,989 | 24,789 |
| Balance at 30 June 2019 | 50,576 | 7,922 | 8,361 | 66,859 |

## 3.2 Loan receivables (continued)

*Accounting policy*

AASB 9 *'Financial Instruments'* has been applied from 1 July 2018, replacing AASB 139, materially changing the recognition of impairment on loan receivables. Refer to Note 1(c).

Loan receivables that have fixed or determinable payments that are not quoted in an active market are classified as loan receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

***Key estimate – impairment of financial assets***

Under AASB 9, a three-stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk (SICR) since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

*Probability of default*

To measure the expected credit losses, loan receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of loan receivables over a period of 12 months before 1 June 2019 respectively and the corresponding historical credit losses experienced within this period.

*Macroeconomic scenarios*

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis to identify key economic variables impacting credit risk and expected credit losses for Personal Loans and Motor Vehicle Loans. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument.

*Loss given default*

Loss given default is estimated based on historical data related to amounts recovered post write off.

*Write-off policy*

The Group writes off financial assets in whole or in part on the following basis:

- For personal loans, when payments on the loan reach 90 days past due, unless the loan is in a hardship arrangement or in dispute,
- For motor vehicle loans, the earlier of the date on which all practical asset recovery efforts have been exhausted with no reasonable expectation of further recoveries and when the loan has reached 180 days in contractual arrears and no payment has been received for 90 days.

Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral such that there is no reasonable expectation of full recovery. Written off loans can subsequently be sent to third party collection agents for recovery.

### 3.3 Inventories

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| New and pre-owned goods at cost | 21,904 | 21,164 |
| Provision for obsolete stock | (1,563) | (534) |
| New and pre-owned goods (net) | 20,341 | 20,630 |
| New and used motor vehicles at cost | 29 | 43 |
| | 20,370 | 20,673 |

*Accounting policies*

Inventories are valued at the lower of cost and net realisable value. Costs, including purchase costs on a first in first out basis are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

As a result of increasing aged inventory during the year, the Company has amended its estimates used to determine the provision for obsolete stock. Taking in to account both the difference between the marked down price and original costs, an additional provision has been made following an assessment of the aged inventory and the historic profits/(losses) incurred when sales have been made compared to the profits achieved on non-aged inventory sales. The resulting increase to the provision of $1.0 million accounts for the expected reduced return upon sale. This allows for items that have not been marked down but are likely to be before a sale is achieved. At the reporting date the provision represents 12% of the value of general inventory and 4% of jewellery inventory.

### 3.4 Plant and equipment

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Cost*** | | | |
| Balance at 1 July 2017 | 13,656 | 11,704 | 25,360 |
| Additions | 391 | 1,884 | 2,275 |
| Transfers between asset categories | 17 | (17) | - |
| Disposals | (618) | (1,529) | (2,147) |
| Foreign currency exchange differences | 3 | 31 | 34 |
| Balance at 30 June 2018 | 13,449 | 12,073 | 25,522 |
| Additions | 72 | 544 | 616 |
| Disposals | (608) | (2,746) | (3,354) |
| Foreign currency exchange differences | 1 | 14 | 15 |
| Balance at 30 June 2019 | 12,914 | 9,885 | 22,799 |
| | | | |
| ***Depreciation*** | | | |
| Balance at 1 July 2017 | 7,098 | 8,029 | 15,127 |
| Disposals | (532) | (1,324) | (1,856) |
| Depreciation expense | 1,647 | 1,434 | 3,081 |
| Foreign currency exchange differences | 3 | 26 | 29 |
| Balance at 30 June 2018 | 8,216 | 8,165 | 16,381 |
| Disposals | (461) | (2,209) | (2,670) |
| Depreciation expense | 1,514 | 1,389 | 2,903 |
| Foreign currency exchange differences | 1 | 11 | 12 |
| Balance at 30 June 2019 | 9,270 | 7,356 | 16,626 |

### 3.4 Plant and equipment (continued)

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Net book value*** | | | |
| As at 30 June 2018 | 5,233 | 3,908 | 9,141 |
| As at 30 June 2019 | 3,644 | 2,529 | 6,173 |

*Accounting policies*

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Leasehold improvements | 8 years |
| Plant and equipment | 5 years |
| Equipment under finance lease | 5 years |
| Fixtures and fittings | 8 years |

### 3.5 Goodwill

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| ***Gross carrying amount*** | | |
| Goodwill | 106,967 | 106,967 |

*Accounting policies*

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata based on the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 3.5 Goodwill (continued)

**Allocation of goodwill to CGUs**

Goodwill has been allocated for impairment testing purposes to the following CGUs or groups of CGUs:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Personal finance | 90,561 | 90,561 |
| Store operations | 16,406 | 16,406 |
| | 106,967 | 106,967 |

**Impairment losses recognised**

No impairment losses have been recognised in the years ended 30 June 2019 or 30 June 2018.

**Impairment testing and key assumptions**

*Impairment testing approach applicable to all CGUs*

Impairment modelling for each CGU has been prepared separately based on a value in use model which uses cash flow projections based on budgets approved by management covering a five-year period. Cash flows beyond the five-year period are estimated using a terminal value calculated based on a terminal growth rate under standard valuation principles.

Key assumptions are based on a combination of past experience for mature products and external sources (market data) for less mature products and economic metrics such as interest rates.

Working capital requirements are factored into the modelling based on historic requirements for each CGU, and vary in line with earnings growth. Capital investment, required to run the business (i.e. replacement and non-expansionary capital expenditure) has been included based on budgeted amounts for the next financial year and incremental growth in subsequent years consistent with increasing revenues.

The recoverable value of all non-current assets, including goodwill, property, plant and equipment (note 3.4) and other intangible assets (note 3.6) is assessed using the impairment testing as outlined in this note.

*Impact of regulations*

The Personal Finance business operates in a regulated industry. The impairment testing for this business segment is based on management's expectation of performance, considering applicable legislative requirements at the date of the impairment testing, being 30 June 2019. Any material changes to legislation impacting this business in future periods may have a significant positive or negative impact on future performance and may result in an impairment.

The following key assumptions were used in the impairment testing:

| ***Assumption*** | ***Personal finance*** | ***Store operations*** |
|---|---|---|
| 2020 budget revenue growth / (reduction) | (5%) | (5%) |
| 2020 budget expense growth / (reduction) | (11%) | (11%) |
| Revenue growth rate beyond 1 year | 1% - 2% | 1% - 2% |
| Expense growth rate beyond 1 year | (4%) - 2% | (4%) - 2% |
| Terminal growth rate > 5 years | 2.5% | 2.5% |
| Pre-tax discount rate applied to cash flows | 16.1% | 16.1% |

### 3.5 Goodwill (continued)

Bad debt rates have been forecast based on historic average rates and are adjusted in future periods to move towards industry and historical averages for individual products experienced by the Group. This projection reflects the benefits of the enhanced credit assessment processes which have been implemented, and consequent anticipated lower bad debt rates.

For the year ended 30 June 2018 the key assumptions used included:

- 2019 growth rates for revenue and expenses in Personal finance of +13% and +17% respectively, in the following years growth rates ranged from -1% to +5% for revenue and -1% to +6% for expenses;
- 2019 growth rates for revenue and expenses in Store operations of 0% and -2% respectively, in the following years growth rates ranged from +3% to +4% for revenue and +2% for expenses;
- Pre-tax discount rates of 15.8% and terminal growth rates of 2.5%.

*Impairment sensitivity disclosures - regulatory environment*

Reasonably possible changes are considered in the context of regulatory requirements that have been enacted or substantively enacted at the date of the impairment testing, or where the outcome of future changes can reasonably be modelled at the date of impairment testing.

With this in mind, potential future legislative changes not yet enacted or substantively enacted may significantly impact the Group's operations, should they be introduced in future periods.

As disclosed in note 3.5 of the 30 June 2017 annual report, on 28 November 2016, the Minister for Revenue and Financial Services issued a media release in response to the Final Report of the Small Amount Credit Contract (SACC) Law Review advising that the Government supports most of the recommendations, in part or in full, of the Final Report. One of the recommendations is to extend the SACC protected earnings amount (PEA) requirement to all consumers and lowering it to 10 per cent of the consumer's net income. The Company is continuing discussions with the Government around these recommendations, with no changes to the applicable SACC legislation having currently been enacted.

Consequently, there is significant uncertainty with respect to the timing of enacting any legislative change, as well as the final scope and form of any eventual change, if any.

The recoverable value of both the Personal finance and Store operations businesses may be impacted by potential future legislative changes given the impact on both the Group's personal loan and cash advance operations. Refer to note 2.5 for further information on the Group's operations.

Whilst ultimately the Group's business operations could potentially be adjusted to mitigate the impact of these changes, the likely impact of the legislation if enacted in its current proposed form from 1 July 2020, based on the current profile of the loan book and with reasonably possible changes to other key assumptions being taken into account, may result in an impairment within a range of $45 million to $60 million (2018: $45 million to $55 million). The increase in range reflects the reduced profitability in the current financial year and the impact this has on the forward forecasts.

As outlined above, this estimate is subject to significant variability due to both the ultimate form and enactment date of the legislation, both of which are uncertain, as well as the profile of the loan book when any applicable legislative changes were to come into effect.

Additionally, at both the date of impairment testing and the date of this report there is no certainty that any change to applicable legislation will be made or the timing of any such change.

### 3.5 Goodwill (continued)

*Impairment sensitivity disclosures - Store based growth*

Within Store Operations, revenue growth from retail and pawnbroking respectively is forecast to grow on average 5.2% and 4.7% per annum over the five-year forecast period. Growth rates of 4.0% and 3.3% over the same period for the retail and pawnbroking businesses respectively would result in an impairment break even position with respect to the recoverable amount of the assets within the Store Operations CGU.

### 3.6 Other intangible assets

***Allocation of other intangible assets to CGUs***

Other intangible assets are allocated to their respective CGU and tested for impairment when impairment indicators are identified. Refer to note 3.5 for details of impairment testing. The recoverable value of other intangible assets is assessed using the same assumptions and methods as the goodwill for the related CGUs.

No impairment has been recognised in the year ended 30 June 2019 (2018: nil).

The allocation of other intangible assets to CGUs is as follows:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Franchise operations (excluding UK) | 5,715 | 6,213 |
| Franchise operations (UK) | 3,096 | 2,939 |
| Personal finance | 11,897 | 14,100 |
| Store operations | 4,271 | 6,241 |
| Vehicle financing | 1,945 | 657 |
| | 26,924 | 30,150 |

***Categories of other intangible assets***

| | Reacquired rights $'000 | Trade names & customer relationships $'000 | Software $'000 | Total $'000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| Balance at 1 July 2017 | 7,638 | 16,868 | 19,130 | 43,636 |
| Additions | - | - | 7,458 | 7,458 |
| Disposals | (80) | (18) | (21) | (119) |
| Foreign currency exchange differences | 46 | - | 42 | 88 |
| Balance at 30 June 2018 | 7,604 | 16,850 | 26,609 | 51,063 |
| Additions | - | - | 6,636 | 6,636 |
| Disposals | - | - | (6,782) | (6,782) |
| Impairment | - | - | (1,192) | (1,192) |
| Foreign currency exchange differences | 18 | - | 21 | 39 |
| Balance at 30 June 2019 | 7,622 | 16,850 | 25,292 | 49,764 |

### 3.6 Other intangible assets (continued)

| | Reacquired rights<br>$'000 | Trade names & customer relationships<br>$'000 | Software<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| ***Amortisation*** | | | | |
| Balance at 1 July 2017 | 4,516 | 8,351 | 3,782 | 16,649 |
| Disposals | (80) | (18) | (14) | (112) |
| Amortisation expense | 513 | 379 | 3,472 | 4,365 |
| Foreign currency exchange differences | 12 | - | - | 12 |
| Balance at 30 June 2018 | 4,961 | 8,712 | 7,240 | 20,913 |
| Disposals | - | - | (4,320) | (4,320) |
| Amortisation expense | 500 | 141 | 5,600 | 6,241 |
| Foreign currency exchange differences | 5 | - | 1 | 6 |
| Balance at 30 June 2019 | 5,466 | 8,853 | 8,521 | 22,840 |
| | | | | |
| As at 30 June 2018 | 2,643 | 8,138 | 19,369 | 30,150 |
| As at 30 June 2019 | 2,156 | 7,997 | 16,771 | 26,924 |

*Accounting policies*

Reacquired rights and customer relationships acquired through business combinations are recognised at fair value at acquisition date less accumulated amortisation and impairment.

Trade names relating to repurchased sub-master licenses both overseas and in Australia are recognised at cost less accumulated amortisation.

Software development expenditure is recognised as an asset when it is possible that future economic benefits attributable to the asset will flow. Software assets are recognised at cost less accumulated amortisation.

Intangible assets are amortised as follows:

| ***Asset*** | ***Amortisation period*** |
|---|---|
| Reacquired rights | The remaining life of each franchise agreement as at the acquisition date |
| Customer relationships | Useful life of 5 years based on historic average customer relationships |
| Trade names | Useful life which is not more than 100 years |
| Software | Useful life of 5 years based on historic experience |

***Key estimate – useful lives of other intangible assets***

The Company reviews the estimated useful lives of other intangible assets at the end of each annual reporting period. The estimation of the remaining useful lives of other intangible assets requires the entity to make significant estimates based on both past performance and expectations of future performance. During the year ended 30 June 2019 the Company revised its estimate of the useful lives of all software assets, previously between 5 and 8 years, to 5 years, resulting in an additional accelerated amortisation charge of $2.941 million.

## 3.7 Trade and other payables

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables | | 2,014 | 3,691 |
| Accruals | | 13,282 | 15,794 |
| | | 15,296 | 19,485 |

The Group has financial risk management policies in place to ensure that all payables are paid within the allowed credit period in order to avoid the payment of interest on outstanding accounts.

## 3.8 Provisions

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current** | | | |
| Employee benefits | | 6,235 | 5,666 |
| Fringe benefits tax | | 41 | 36 |
| Onerous lease contracts | (i) | 518 | 864 |
| Other | | 250 | 6 |
| | | 7,044 | 6,572 |
| **Non-current** | | | |
| Employee benefits | | 887 | 817 |
| Onerous lease contracts | (i) | 825 | 1,034 |
| | | 1,712 | 1,851 |

(i) The provision for onerous lease contracts relates to the Group's previously discontinued UK operations.

*Accounting policies*

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received, and the amount of the receivable can be measured reliably.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and personal leave when it is probable that settlement will be required, and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

## (4) Capital structure and financing costs

**In this section**
This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Board determines the appropriate capital structure of the Group, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance the Group's activities both now and in the future.

The Board considers the Group's capital structure and its dividend policy at least twice a year ahead of announcing results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan.

### 4.1 Cash and cash equivalents

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Cash on hand | 2,407 | 2,700 |
| Cash at bank | 78,694 | 137,291 |
| | 81,101 | 139,991 |

Cash at bank includes restricted cash of $6.592 million (2018: $4.495 million) that is held in accounts controlled by the CCPF Receivables Trust No 1 that was established to operate the Company's securitisation facility with Fortress Finance. The facility prescribes that cash deposited in this account can only be used to fund new principal advances. Surplus funds at the end of the period are redistributed in keeping with the terms of the securitisation facility. Cash at bank includes a further $5.730 million (2018: $5.730 million) on deposit as security for banking facilities.

### 4.2 Borrowings

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current** | | | |
| Securitisation facility | (i) | 87,826 | 79,393 |
| Bonds | (ii) | - | 59,958 |
| | | 87,826 | 139,351 |
| **Non-current** | | | |
| Securitisation facility | (i) | 35,510 | 18,996 |

(i) The securitisation facility represents a liability owed by CCPF Receivables Trust No 1, a consolidated subsidiary established as part of the borrowing arrangement with the Fortress Investment Group. This liability is secured against eligible receivables (which includes Small and Medium Amount Credit Contracts issued by Cash Converters Personal Finance and secured vehicle loans provided by Green Light Auto) which have been assigned to the Trust. Collections from Trust receivables are used to pay interest of the securitisation facility, with the remainder remitted to the Group twice per month. Receivables have maturities of up to 5 years and the facility has accordingly been presented as current and non-current liabilities in line with the maturities of the underlying receivables. The facility limit is $150 million. In the ordinary course of business, the consolidated entity currently expects to utilise this facility until at least 10 November 2020, with an option to extend for a further two years from this date.

(ii) Represented a September 2013 issue of $60 million of senior unsecured 7.95% notes which matured in September 2018 with FIIG Securities Limited.

### 4.2 Borrowings (continued)

***Reconciliation of liabilities arising from financing activities***

| | 2018 | Cash flows | Non-cash changes Borrowing costs | 2019 |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Securitisation facility | 98,389 | 25,000 | (53) | 123,336 |
| Bonds | 59,958 | (60,000) | 42 | - |
| Total liabilities from financing activities | 158,347 | (35,000) | (11) | 123,336 |

*Accounting policies*

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

***Financing arrangements***

Unrestricted access was available at balance date to the following lines of credit:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| **Total facilities** | | |
| Securitisation facilities | 150,000 | 150,000 |
| Bond | - | 60,000 |
| | 150,000 | 210,000 |
| **Used at balance date** | | |
| Securitisation facilities | 124,500 | 99,500 |
| Bond | - | 60,000 |
| | 124,500 | 159,500 |
| **Unused at balance date** | | |
| Securitisation facilities | 25,500 | 50,500 |

Refer to note 4.3 for further information in relation to financial instruments.

***Loan covenants and review events***

The Group's borrowing facilities are subject to various covenants and review events. The securitisation has various eligibility criteria which the receivables of the Group must meet to be funded under the facility. During the reporting period there have been no events that would cause these covenants to be breached.

## 4.3 Financial risk factors

The Group's activities expose the Group to a variety of financial risks: market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Financial risk and capital management is carried out in accordance with policies approved by the Board. The Board reviews and approves written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rates, liquidity, foreign exchange and credit risk. The Audit and Risk Committee assists the Board in monitoring the implementation of risk management policies.

### (a) Categories of financial instruments

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 81,101 | 139,991 |
| Trade and other receivables | 14,087 | 28,261 |
| Loan receivables | 174,600 | 151,724 |
| | 269,788 | 319,976 |
| **Financial liabilities** | | |
| Trade and other payables | 15,296 | 19,485 |
| Borrowings | 123,336 | 158,347 |
| | 138,632 | 177,832 |

The Group has no material financial assets or liabilities that are held at fair value.

### (b) Financial risk management objectives

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### (c) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

### (d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are relatively small and spot rates are normally used to translate transactions into the reporting currency. There are no foreign currency denominated monetary assets or monetary liabilities in the Group at the reporting date (2018: nil) other than in the functional currency of the operating entity.

### 4.3 Financial risk factors (continued)

#### (e) Interest rate risk management

The Company and the Group are exposed to interest rate risk as entities in the consolidated Group borrow funds at variable rates and place funds on deposit at variable rates. Loans issued by the Group are at fixed rates. The risk is managed by the Group by monitoring interest rates.

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis point increase or decrease is used because this represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase/decrease by approximately $446 thousand (2018: increase/decrease by approximately $74 thousand).

#### (f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group measures credit risk on a fair value basis. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than its franchisees. The Group has a policy of obtaining sufficient collateral or other securities from these franchisees. The majority of loans within the financing divisions relate to loans made by Cash Converters Personal Finance and Green Light Auto which may be both secured and unsecured loans. Credit risk is present in relation to all loans made, which is managed within an agreed corporate policy on customer acceptance and ongoing review of recoverability. For secured loans, the fair value of the credit risk considers the underlying value of the collateral against the loan.

#### (g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Included in note 4.2 is a listing of additional undrawn facilities that the Company / Group has at its disposal to further reduce liquidity risk.

## 4.3 Financial risk factors (continued)

***Liquidity and interest risk tables***

*Financial liabilities*

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are at floating rates, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

| | Weighted average effective interest rate % | 1 year or less $'000 | 1 to 5 years $'000 | More than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| ***2019*** | | | | | |
| Non-interest bearing | 0.00 | 15,296 | - | - | 15,296 |
| Variable interest rate instruments | 7.25 | 87,826 | 35,510 | - | 123,336 |
| | | 103,122 | 35,510 | - | 138,632 |
| ***2018*** | | | | | |
| Non-interest bearing | 0.00 | 19,485 | - | - | 19,485 |
| Fixed interest rate instruments | 7.95 | 60,752 | - | - | 60,752 |
| Variable interest rate instruments | 8.72 | 79,393 | 18,997 | - | 98,390 |
| | | 159,630 | 18,997 | - | 178,627 |

*Financial assets*

The following table details the Group's expected maturity for its financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company / Group anticipates that the cash flow will occur in a different period.

| | Weighted average effective interest rate % | 1 year or less $'000 | 1 to 5 years $'000 | More than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| ***2019*** | | | | | |
| Non-interest bearing | 0.00 | 27,862 | - | - | 27,862 |
| Fixed interest rate instruments | 86.87 | 236,815 | 96,654 | - | 333,469 |
| Variable interest rate instruments | 1.39 | 35,201 | - | - | 35,201 |
| | | 299,878 | 96,654 | - | 396,532 |
| ***2018*** | | | | | |
| Non-interest bearing | 0.00 | 30,540 | - | - | 30,540 |
| Fixed interest rate instruments | 94.1 | 255,260 | 68,677 | - | 323,937 |
| Variable interest rate instruments | 1.65 | 84,605 | - | - | 84,605 |
| | | 370,405 | 68,677 | - | 439,082 |

The amounts included above for variable interest rate instruments for both assets and liabilities are subject to change if actual rates differ from those applied in the above average calculations.

## 4.3 Financial risk factors (continued)

### (h) Fair value of financial instruments

The fair value of the Group's financial assets and liabilities are determined on the following basis:

*Financial assets and financial liabilities that are measured at fair value on a recurring basis*

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2019 and 30 June 2018, the Group has no material financial assets and liabilities that are measured on a recurring basis at fair value.

*Financial assets and financial liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)*

At 30 June 2019 and 30 June 2018, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

The fair value of the monetary financial assets and financial liabilities is based upon market prices where a market price exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

## 4.4 Issued capital

| | 2019 Number | 2018 Number | 2019 $'000 | 2018 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | 616,437,946 | 493,047,424 | 248,714 | 210,203 |
| Issued during the year | | | | |
| Shares issued on exercise of performance rights | - | 102,166 | - | 98 |
| Entitlement offer | - | 123,288,356 | - | 39,452 |
| Share issue costs | - | - | - | (1,039) |
| Balance at end of year | 616,437,946 | 616,437,946 | 248,714 | 248,714 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the Corporations Act abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

## (5) Group structure

**In this section**
This section provides information to assist users understand how the Group structure affects the financial position and performance of the Group as a whole. The Group includes entities that are classified as associates, which are accounted for using the equity method.

In this section of the notes there is information about:
1. Changes to the structure that occurred during the prior year as a result of business combinations or the disposal of a discontinued operation;
2. Investments in associates;
3. Composition of the Group; and
4. Parent entity financial information.

### 5.1 Investment in associates

Balances of the investments in associates and joint ventures are as follows:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Balance at beginning of year | 5,282 | 4,607 |
| Net profit for year | 1,613 | 846 |
| Return on investment received | (680) | - |
| Foreign exchange adjustment in value of investment | 237 | (171) |
| Balance at end of year | 6,452 | 5,282 |

Associates are those entities over which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

The financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. If the Company's share of losses exceeds its interest in an associate, their carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

During the year, the Company held an investment in the Cash Converters Holdings Limited Partnership, the master franchisor in New Zealand. The Company holds a 25% equity interest (ownership and voting interest) in all aspects of the New Zealand enterprise, including corporate stores, franchise contracts and financial services.

### 5.2 Controlled entities

#### (a) Composition of the Group

Controlled entities of Cash Converters International Limited:

| Name of entity | Country of incorporation | Ownership interest 2019 | 2018 |
|---|---|---|---|
| BAK Property Pty Ltd (1) | Australia | 100% | 100% |
| Cash Converters (Cash Advance) Pty Ltd (1) (2) | Australia | 100% | 100% |
| Cash Converters Finance Corporation Limited (3) | Australia | 64.33% | 64.33% |
| Cash Converters (NZ) Pty Ltd | Australia | 100% | 100% |
| Cash Converters Personal Finance Pty Ltd (1) (2) | Australia | 100% | 100% |
| Cash Converters Pty Ltd (1) (2) | Australia | 100% | 100% |
| Cash Converters (Stores) Pty Ltd (1) (2) | Australia | 100% | 100% |
| Cash Converters UK Holdings PLC | UK | 100% | 100% |
| Cash Converters USA, Inc (3) | USA | 99.285% | 99.285% |
| Cash Converters USA Limited (3) | Australia | 99.285% | 99.285% |
| Finance Administrators of Australia Pty Ltd (1) (2) | Australia | 100% | 100% |
| Green Light Auto Group Pty Limited (1) (2) | Australia | 100% | 100% |
| Mon-E Pty Ltd (1) (2) | Australia | 100% | 100% |
| Safrock Finance Corporation (QLD) Pty Ltd (1) (2) | Australia | 100% | 100% |
| Safrock Finance Corporation WA Pty Ltd (1) (2) | Australia | 100% | 100% |
| CCPF Receivables Trust No 1 | Australia | 100% | 100% |

(1) These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2019.
(2) These companies are members of the tax consolidated group.
(3) Non-controlling interest is not considered material in these subsidiaries.

#### (b) Deed of cross guarantee

Cash Converters International Limited and certain wholly-owned companies (the Closed Group), identified in (a) above, are parties to a Deed of Cross Guarantee (the Deed). The effect of the Deed is that members of the Closed Group guarantee to each creditor payment in full of any debt in the event of winding up of any of the members under certain provisions of the Corporations Act 2001. ASIC Corporations Instrument 2016/785, issued on 28 September 2016, provides relief to parties to the Deed from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports, subject to certain conditions as set out therein.

Pursuant to the requirements of this Corporations Instrument, a summarised consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019 and consolidated Statement of Financial Position as at 30 June 2019, comprising the members of the Closed Group after eliminating all transactions between members are set out on the following pages.

## 5.2 Controlled entities (continued)

### Summarised statement of profit or loss and comprehensive income

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Profit / (loss) before income tax | (2,200) | 28,908 |
| Income tax benefit / (expense) | 674 | (8,768) |
| Total comprehensive income | (1,526) | 20,140 |

### Summary of movements in Closed Group's retained earnings

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Retained earnings at beginning of year | 103,916 | 83,022 |
| AASB 9 adjustment to opening retained earnings | (4,669) | |
| Transfer reserve balance | 574 | 754 |
| Net profit | (1,526) | 20,140 |
| Dividends paid or provided for | - | - |
| Retained earnings at end of year | 98,295 | 103,916 |

### Statement of financial position

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 69,227 | 131,541 |
| Trade receivables | 4,318 | 19,675 |
| Loan receivables | 128,374 | 118,962 |
| Inventories | 20,364 | 20,673 |
| Prepayments | 7,165 | 6,261 |
| Current tax receivable | 1,897 | - |
| **Total current assets** | 231,345 | 297,112 |
| **Non-current assets** | | |
| Trade and other receivables | 22,236 | 18,130 |
| Loan receivables | 46,226 | 32,762 |
| Plant and equipment | 6,022 | 8,964 |
| Deferred tax assets | 12,021 | 5,864 |
| Goodwill | 106,967 | 106,967 |
| Other intangible assets | 24,687 | 27,900 |
| Prepayments | 3,083 | 1,498 |
| Investments in associates | 6,452 | 5,282 |
| Other financial assets | 30,250 | 30,250 |
| **Total non-current assets** | 257,944 | 237,617 |
| **Total assets** | 489,289 | 534,729 |
| **Current liabilities** | | |
| Trade and other payables | 10,564 | 15,719 |
| Borrowings | 87,826 | 139,351 |
| Provisions | 6,526 | 5,709 |
| Current tax payable | - | 466 |
| **Total current liabilities** | 104,916 | 161,245 |

### 5.2 Controlled entities (continued)

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Borrowings | 35,510 | 18,996 |
| Provisions | 887 | 817 |
| **Total non-current liabilities** | 36,397 | 19,813 |
| | | |
| **Total liabilities** | 141,313 | 181,058 |
| | | |
| **Net assets** | **347,976** | **353,671** |
| | | |
| **Equity** | | |
| Issued capital | 248,714 | 248,714 |
| Reserves | 967 | 1,041 |
| Retained earnings | 98,295 | 103,916 |
| **Total equity** | **347,976** | **353,671** |

### 5.3 Parent entity disclosures

The financial information of the parent entity, Cash Converters International Limited has been prepared on the same basis as the consolidated financial report.

#### (a) Statement of financial position

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | 1,904 | 2 |
| Non-current assets | 252,565 | 315,385 |
| **Total assets** | 254,469 | 315,387 |
| | | |
| **Liabilities** | | |
| Current liabilities | 9 | 60,466 |
| Non-current liabilities | - | - |
| **Total liabilities** | 9 | 60,466 |
| **Net assets** | 254,460 | 254,921 |
| | | |
| **Equity** | | |
| Issued capital | 248,714 | 248,714 |
| Reserves | 884 | 1,177 |
| Retained earnings | 4,862 | 5,030 |
| **Total equity** | 254,460 | 254,921 |

#### (b) Comprehensive income

| | | |
|---|---|---|
| (Loss) for the year | (456) | - |
| Other comprehensive income | - | - |
| **Total comprehensive (loss)** | (456) | - |

### 5.3 Parent entity disclosures (continued)

### (c) Guarantees entered into by parent entity in relation to the debts of its subsidiaries

Cross guarantees have been provided by the parent entity and its controlled entities as listed in note 5.2.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Guarantee provided under the deed of cross guarantee (1) | 2,348 | 2,307 |

(1) Cash Converters International Limited has provided a cross guarantee to HSBC for a BACS facility provided to CCUK.

## (6) Other items

**In this section**
This section includes additional information not disclosed elsewhere in the report but required to be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the *Corporations Regulations*.

### 6.1 Contingent liabilities

In the course of its normal business the Group occasionally receives claims and writs for damages and other matters arising from its operations. Where, in the opinion of the directors it is deemed appropriate, a specific provision is made, otherwise the directors deem such matters are either without merit or of such kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the economic entity if disposed of unfavourably.

On 31 July 2015, the Company was served with a statement of claim lodged with the New South Wales Registry of the Federal Court of Australia commencing a class action claim on behalf of borrowers resident in Queensland who took out personal loans from the Company's subsidiaries during the period from 30 July 2009 to 30 June 2013.

The proceeding relates to the brokerage fee charged to customers. The brokerage fee system has not been used since 30 June 2013. Cash Converters has vigorously defended the proceeding, with a trial completed in November 2018 and the Company awaits the outcome. Given the current stage of the proceedings, the financial impact of the class action on Cash Converters cannot be reliably and accurately determined at this time. However, if Cash Converters does not successfully defend the proceedings, Cash Converters would likely be required to make a significant payment by way of damages or settlement, which could have a material adverse impact on the financial performance and position of Cash Converters.

The directors are not aware of any other material contingent liabilities in existence as at 30 June 2019 requiring disclosure in the financial statements.

## 6.2 Commitments

***Operating leases***

Operating leases relate to office accommodation and retail premises with lease terms of between 5 to 10 years, with an option to extend for a further 5 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

*Non-cancellable operating lease commitments payable:*

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Within one year | 11,223 | 10,593 |
| One to five years | 26,136 | 25,969 |
| Later than five years | 1,267 | 3,105 |
| | 38,626 | 39,667 |

***Capital expenditure***

As at 30 June 2019, capital expenditure commitments were nil (2018: nil).

***Other contractual commitments***

| | | |
|---|---|---|
| Within one year | 785 | 246 |
| One to five years | 450 | 256 |
| | 1,235 | 502 |

## 6.3 Related party disclosures

The immediate parent and ultimate controlling party of the Group is Cash Converters International Limited.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

During the year an amount of $120,000 (2018: $120,000) was paid to an entity related to the beneficial owner of EZCORP Inc, the Company's largest shareholder for consulting services.

During the year an amount of $441,216 was loaned to Brendan White, Chief Executive Officer of the Company. Interest is payable to the Company on this loan at a rate of 5.65% per annum, and the loan is repayable by December 2019. The balance of this loan, including accrued interest at 30 June 2019 was $451,065.

Other than share-based payments (as disclosed in note 6.5) and shareholdings of Key Management Personnel (KMP) (as disclosed in the remuneration report), the parent, its subsidiaries, associates and KMP made no other related party transactions during the reporting period.

### 6.4 Key management personnel disclosures

Details of directors and other members of KMP of Cash Converters International Limited during the year are:

- Mr Stuart Grimshaw (Non-Executive Chairman)
- Mr Peter Cumins (Executive Deputy Chairman)
- Mr Kevin Dundo (Non-Executive Director)
- Mr Lachlan Given (Non-Executive Director)
- Ms Andrea Waters (Non-Executive Director, resigned 14 December 2018)
- Ms Ellen Comerford (Non-Executive Director, resigned 30 September 2018)
- Mr Brendan White (Chief Executive Officer from 18 March 2019)
- Mr Sam Budiselik (Chief Operating Officer)
- Mr Ben Cox (General Manager Corporate Distribution)
- Mr Brad Edwards (General Counsel and Company Secretary)
- Mr Martyn Jenkins (Chief Financial Officer)
- Ms Myrrhine Cutten (Chief Human Resources Officer to 25 January 2019)
- Mr Nathan Carbone (Chief Risk Officer to 9 November 2018)
- Mr Mark Reid (Chief Executive Officer to 27 August 2018)

The aggregate compensation of the KMP of the Group is set out below:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Short-term employee benefits | 3,823,836 | 5,421,732 |
| Post-employment benefits | 152,708 | 197,321 |
| Other long-term benefits | 22,580 | 11,435 |
| Share-based payments | (466,658) | 252,571 |
| Termination benefits | 747,077 | 99,218 |
| | 4,279,543 | 5,982,277 |

### 6.5 Share-based payments

***Cash Converters rights plan***

The Cash Converters rights plan, which was approved by shareholders on 18 November 2015, allows the directors of the Company to issue performance rights which will vest into ordinary shares in the Company upon the achievement of certain vesting conditions. As at 30 June 2019, the shareholders had approved the issue of 15,920,500 performance rights under the Company's previous rights plan, approved by shareholders on 30 November 2010 and 26,862,021 performance rights under the new rights plan, to the then managing director (now Executive Deputy Chairman) and the Company's senior management team in various tranches with each tranche containing vesting conditions.

Each right entitles the holder to subscribe for one fully paid ordinary share in the Company at the exercise price of nil. During the reporting period, a total of 9,218,162 performance rights were granted in Tranches 23, 24, 25 and 26 to senior executives of the Company.

### 6.5 Share-based payments (continued)

The following arrangements were in existence during the current reporting period:

| Tranche | Grant date | Number of rights | Grant date fair value | Exercise price | Expiry date |
|---|---|---|---|---|---|
| 17 | 23 Nov 2016 | 2,286,460 | $0.20 | $0.00 | 30 Jun 2019 |
| 18 | 23 Nov 2016 | 2,286,460 | $0.31 | $0.00 | 30 Jun 2019 |
| 19 | 12 Dec 2016 | 892,649 | $0.17 | $0.00 | 30 Jun 2019 |
| 20 | 12 Dec 2016 | 892,649 | $0.29 | $0.00 | 30 Jun 2019 |
| 21 | 14 Feb 2018 | 1,730,644 | $0.22 | $0.00 | 30 Jun 2020 |
| 22 | 14 Feb 2018 | 1,730,644 | $0.33 | $0.00 | 30 Jun 2020 |
| 23 | 19 Dec 2018 | 2,765,448 | $0.15 | $0.00 | 30 Jun 2021 |
| 24 | 19 Dec 2018 | 2,765,448 | $0.24 | $0.00 | 30 Jun 2021 |
| 25 | 26 Mar 2019 | 1,843,633 | $0.06 | $0.00 | 30 Jun 2021 |
| 26 | 26 Mar 2019 | 1,843,633 | $0.19 | $0.00 | 30 Jun 2021 |

***Fair value of performance rights granted during the year***

The weighted average fair value of the performance rights granted during the financial year is $0.17 (2018: $0.28). Where relevant, the expected life used in the model is based on the earliest vesting date possible for each tranche, based on the vesting conditions.

| | Tranche 23 | Tranche 24 | Tranche 25 | Tranche 26 |
|---|---|---|---|---|
| Grant date | 19 Dec 2018 | 19 Dec 2018 | 26 Mar 2019 | 26 Mar 2019 |
| Option pricing model | Monte Carlo | Binomial | Monte Carlo | Binomial |
| Grant date share price | $0.24 | $0.24 | $0.19 | $0.19 |
| Exercise price | $0.00 | $0.00 | $0.00 | $0.00 |
| Expected volatility | 50% | 50% | 50% | 50% |
| Option life | 2.53 years | 2.53 years | 2.27 years | 2.27 years |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | 1.95% | 1.95% | 1.52% | 1.52% |

***Movement in performance rights during the year***

The following table illustrates the number of, and movements in, performance rights during the year. The performance rights were issued at no charge, and the weighted average exercise price is nil. No rights were exercisable at the end of the current year.

| | 2019 Number | 2018 Number |
|---|---|---|
| Outstanding at beginning of year | 9,819,506 | 12,755,380 |
| Granted during year | 9,218,162 | 3,461,288 |
| Forfeited / lapsed during year | (8,063,898) | (6,294,996) |
| Exercised during year | - | (102,166) |
| Outstanding at end of year | 10,973,770 | 9,819,506 |

### 6.5 Share-based payments (continued)

***Share options exercised during the year***

| Tranche | Grant date | Number exercised | Exercise date | Share price at exercise date |
|---|---|---|---|---|
| ***Year ended 30 June 2019*** | | | | |
| | | - | | |
| ***Year ended 30 June 2018*** | | | | |
| 12 | 25 Sep 2014 | 102,166 | 14 Nov 2017 | $0.35 |

***Share options forfeited / lapsed during the year***

| Tranche | Grant date | Number lapsed |
|---|---|---|
| ***Year ended 30 June 2019*** | | |
| 17 | 23 Nov 2016 | 2,286,460 |
| 18 | 23 Nov 2016 | 2,286,460 |
| 19 | 12 Dec 2016 | 892,649 |
| 20 | 12 Dec 2016 | 892,649 |
| 21 | 14 Feb 2018 | 731,264 |
| 22 | 14 Feb 2018 | 731,264 |
| 23 | 19 Dec 2018 | 121,576 |
| 24 | 19 Dec 2018 | 121,576 |
| | | 8,063,898 |
| ***Year ended 30 June 2018*** | | |
| 13 | 18 Nov 2015 | 1,865,000 |
| 14 | 18 Nov 2015 | 1,865,000 |
| 15 | 28 Jan 2016 | 1,232,224 |
| 16 | 28 Jan 2016 | 1,232,224 |
| 19 | 12 Dec 2016 | 50,274 |
| 20 | 12 Dec 2016 | 50,274 |
| | | 6,294,996 |

***Share options outstanding at year end***

The total number of options outstanding at 30 June 2019 was 10,973,770 (2018: 9,819,506).

| Tranche | Grant date | Number of rights | Grant date fair value | Exercise price | Expiry date |
|---|---|---|---|---|---|
| 21 | 14 Feb 2018 | 999,380 | $0.22 | $0.00 | 30 Jun 2020 |
| 22 | 14 Feb 2018 | 999,380 | $0.33 | $0.00 | 30 Jun 2020 |
| 23 | 19 Dec 2018 | 2,643,872 | $0.15 | $0.00 | 30 Jun 2021 |
| 24 | 19 Dec 2018 | 2,643,872 | $0.24 | $0.00 | 30 Jun 2021 |
| 25 | 26 Mar 2019 | 1,843,633 | $0.06 | $0.00 | 30 Jun 2021 |
| 26 | 26 Mar 2019 | 1,843,633 | $0.19 | $0.00 | 30 Jun 2021 |
| | | 10,973,770 | | | |

The weighted average remaining contractual life for the performance rights outstanding at 30 June 2019 was 1.8 years (2018: 1.4 years).

### 6.5 Share-based payments (continued)

*Accounting policies*

The Group provides benefits to executives of the Group in the form of share-based payment transactions, whereby KMP render services in exchange for options (equity-based transactions). These performance rights are indeterminate rights and confer the right (following valid exercise) to the value of an ordinary Share in the Company at the time, either settled in Shares that may be issued or acquired on-market, or settled in the form of cash, at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of terminations).

The current plan to provide these benefits is the Executive Performance Rights Plan. The cost of the equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using an appropriate valuation methodology.

The cost of equity-based transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the profit or loss is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of the awards that will vest, taking into account such factors as the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where vesting is conditional upon a market condition and awards do not ultimately vest, amounts previously charged to the share-based payment reserve are reversed directly to retained earnings, and not to profit and loss.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of dilutive earnings per share.

### 6.6 Auditor’s remuneration

| | **2019**<br>**$** | **2018**<br>**$** |
|---|---|---|
| *Auditor of the parent entity* | | |
| Audit / review of the financial report | 452,815 | 406,050 |
| Taxation services | - | 95,249 |
| Independent expert in relation to Enforceable Undertaking | - | 90,800 |
| Investigating accountant’s report | - | 81,140 |
| Other non-audit services | 26,083 | 50,000 |
| *Related practice of the parent entity auditor* | | |
| Audit | 46,974 | 45,557 |
| Taxation services | 15,176 | 26,987 |
| | 541,048 | 795,783 |

The auditor of Cash Converters International Limited is Deloitte Touche Tohmatsu.

### 6.7 Events subsequent to the end of the year

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Group.

# Directors' declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

d) the directors have been given the declarations required by s295A of the Corporations Act 2001.

At the date of this declaration the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 5.2 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the directors

Stuart Grimshaw
Director

Perth, Western Australia
29 August 2019

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Cash Converters International Limited
Level 18
37 St Georges Terrace
Perth WA 6000

29 August 2019

Dear Directors

**Cash Converters International Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Cash Converters International Limited.

As lead audit partner for the audit of the financial statements of Cash Converters International Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

**DELOITTE TOUCHE TOHMATSU**

**Leanne Karamfiles**
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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# Independent Auditor's Report to the members of Cash Converters International Limited

## Report on the Audit of the Financial Report

*Opinion*

We have audited the financial report of Cash Converters International Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. 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 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for 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.

<table>
<tr><th>Key audit matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Carrying value of non-current assets<br><br>As disclosed in Notes 3.5 and 3.6, the carrying value of goodwill and other intangible assets as at 30 June 2019 relating to the personal finance and store operations was $107.0 million and $16.2 million respectively.<br><br>The assessment of the recoverable value of these assets requires significant judgement in respect of assumptions such as discount rates, forecast loan volumes and forecast bad debt levels.</td><td>Our procedures included, but were not limited to:<ul><li>obtaining an understanding of the key controls management has in place in relation to the estimate of the recoverable amount of the personal finance and store operations;</li><li>comparing the forecasts used in calculating the recoverable amount to the Board approved business plan;</li><li>evaluating the forecasts used in calculating the recoverable amount by reference to recent performance of the business and assessing historical forecasting accuracy;</li><li>in conjunction with our valuation specialists we assessed and challenged the assumptions and methodologies used, in particular:<ul><li>the discount rate against that of comparable companies;</li><li>forecast loan volumes for personal loans against recent actual levels;</li><li>forecast bad debt levels for personal loans;</li><li>forecast retail and pawn broking revenue growth rates;</li></ul>In relation to the assumptions applied above, where possible we corroborated market related assumptions by reference to external data.</li><li>evaluating management’s consideration of the impact of potential legislative changes on future personal loan volumes;</li><li>sample testing management’s models for mathematical accuracy;</li><li>applying sensitivities to the forecast cash flows including:<ul><li>growth in the number of loans and the expected bad debt rates reflecting rates historically observed;</li><li>the impact on store revenue growth applying market benchmarks for growth rates expected in the industry.</li></ul></li><li>assessing the appropriateness of the disclosures in the Notes to the financial statements.</li></ul></td></tr>
</table>

| **Allowance for impairment losses – loan receivables** | |
|---|---|
| As disclosed in Note 3.2, the carrying value of loan receivables as at 30 June 2019 was $174.6 million, net of allowances for impairment losses of $36.6 million.<br><br>The assessment of the recoverable value of loans requires significant judgements in determining the approach for estimating expected credit losses. | Our procedures included, but were not limited to:<br>• evaluating the key controls management have in place in relation to the estimate of the expected credit losses, loan originations, collections and arrears management;<br>• challenging the assumptions and methodology used to determine the timing of recognition of loss events and significant increase in credit risk, probability of default, loss given default and forward looking information;<br>• assessing the accuracy and completeness of the historical data on a sample basis utilised in the model;<br>• in conjunction with our credit modelling specialists, developing an independent expectation of the allowance for impairment losses based on historical data and forward looking information; and<br>• assessing the appropriateness of the disclosures in the Notes to the financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 to 29 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Cash Converters International Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

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

Deloitte Touche Tohmatsu

**DELOITTE TOUCHE TOHMATSU**

**Leanne Karamfiles**
Partner
Chartered Accountants
Perth, 29 August 2019