Cash Converters International Limited

ABN 39 069 141 546

Half-Year Report

For the half-year ended 31 December 2019

The directors of Cash Converters International Limited (the Company) submit the following report of the Company and its subsidiaries (the Group) for the half-year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The following persons held office as directors of the Company during or since the end of the half-year:

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

Dividends

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

The Board have resolved not to pay an interim dividend.

Review of operations

The Group recorded a net loss after tax for the half-year ended 31 December 2019 of $19.397 million (half-year ended 31 December 2018 net loss after tax: $5.236 million). This included the recording of the $42.500 million settlement for the second of two class actions in Queensland (the Lynch Proceeding) and associated legal costs and tax effects. On a normalised basis, net profit after tax for the period was $11.510 million (half-year ended 31 December 2018: $8.774 million), showing a 31.2% improvement in underlying earnings.

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

	Segment revenues		**Segment profit / (loss before tax result**	
	31 Dec 2019 $'000	**31 Dec 2018 $'000**	**31 Dec 2019 $'000**	**31 Dec 2018 $'000**
Franchise operations	11,130	9,638	6,453	6,144
Store operations	63,580	59,678	6,331	7,217
Personal finance	58,433	59,263	15,887	13,470
Vehicle financing	10,572	8,112	1,566	437
Totals before head office costs	143,715	136,691	30,237	27,268
Head office (i)	205	567	(57,982)	(34,923)
Totals after head office costs	143,920	137,258	(27,745)	(7,655)
Income tax (expense) / benefit			8,348	2,419
Profit / (loss) for the half-year			(19,397)	(5,236)

	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Operating cash (outflow) / inflow	(15,549)	(41,042)
Basic earnings / (loss) per share (cents)	(3.15 cents)	(0.85 cents)

(i) Head office segment results for the half-year ended 31 December 2019 include a Class Action settlement of $42.500 million and for 31 December 2018 a Class Action settlement of $16.400 million.

In order to provide a meaningful comparison to the prior period, the table below highlights the effect of costs relating to the Class Action settlement and other costs of a non-recurring nature to show the underlying operational performance of the Company.

In addition, the Company adopted the new AASB 16 *Leases* accounting standard during the period, which had an impact on the result. As detailed in the notes to the financial statements, AASB 16 fundamentally changes the way entities account for leases, resulting in a reduction in rent expense and an increase in depreciation expense and finance costs. For Cash Converters this had the effect of increasing earnings before interest, taxes, depreciation and amortisation (EBITDA) during the period through the reduction in rent expense, but decreasing net profit after tax (NPAT) due to the charges for depreciation and interest expense under AASB 16 being greater than the reduction in rent. As the current period is the first time AASB 16 is applicable, to provide a comparison to the previous corresponding period, the impact of the change in the standard on NPAT for the period is shown below.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Net profit / (loss) after tax from continuing operations	(19,397)	(5,236)
Normalisation adjustments:		
Class action settlement	42,500	16,400
Class action legal fees	416	2,467
Restructure costs	-	1,147
Tax effect of adjustments	(12,875)	(6,004)
Normalised NPAT	10,644	8,774
Impact of adoption of AASB 16 (net of tax)	866	-
Normalised NPAT after adjusting for AASB 16 adoption	11,510	8,774

Divisional performance

Franchise operations

Cash Converters' franchise operations incorporate royalties and license fee income from approximately 380 international stores in 15 countries, as well as the master franchisor operation in the United Kingdom which supports a 196-strong franchise store network, and Australia's franchise operation with its 84 franchised stores. Also included is the 25% equity interest in Cash Converters New Zealand, which operates 28 stores (16 corporate and 12 franchise).

Profit before tax from franchise operations was $6.453 million, up $309 thousand from the previous corresponding period, which included a contribution from the New Zealand operations of $1.844 million (half-year ended 31 December 2018: $930 thousand).

International revenues remained steady, whilst the UK contributed $1.381 million of profit before tax (half-year ended 31 December 2018: $1.280 million).

Personal Finance operations

The personal finance operations showed increases in total loan books, and an increase in segment profit before tax over the previous corresponding period of 17.9% to $15.887 million, however, segment revenue experienced a 1.4% decrease to $58.433 million. A decrease in net bad debt expenses to $19.144 million (half-year ended 31 December 2018: $23.030 million) during the period following the Company's review of personal finance loan books, which led to accelerated write-offs at 30 June 2019, as well as revised credit measures, contributed to the improved result on lower revenues. Application volumes were up 10.3% on the previous corresponding period, with online applications showing a 14.2% increase.

Total personal finance lending from online channels as a proportion of total lending increased to 53.9% compared to 49.3% in the previous corresponding period. The Medium Amount Credit Contract (MACC) loan book saw an 11.7% increase from 30 June 2019 to $46.328 million, and Small Amount Credit Contract (SACC) loan book saw a small decrease of 1.4% to $91.172 million over the same period.

Income for administration of Cash Advance products for the corporate and franchise store networks continued to decline by 23.9% on the previous corresponding period to $2.748 million (half-year ended 31 December 2018: $3.613 million), reflecting the shift in in store lending to the longer term personal loan products and an overall 20.9% reduction in Cash Advance lending across the network.

Store operations

The corporate store network in Australia produced a segment profit before tax of $6.331 million, down 12.3% on the half-year ended 31 December 2018 segment profit before tax of $7.217 million, however adoption of new leasing standard AASB 16 resulted in a $1.072 million reduction in profit before tax for this segment, giving an underlying improvement in the segment result of 2.6% to $7.403 million on a like for like basis.

The segment continued to see increased retail sales of 12.8% to $42.493 million compared to the previous corresponding period. Stores continue to provide a valuable service to customers to obtain cash for their unwanted items of value, with total buys up 3.0% to $12.681 million. Pawnbroking contributed to the ability of stores to provide value through their second-hand inventory, with a 5.2% increase over the period in pawn loans outstanding to $11.528 million (30 June 2019: $10.936 million). Pawnbroking revenue was up 3.9% on the previous corresponding period. This growth in buys and loans activity has been achieved through a continued focus on value to the customer and creating greater awareness and understanding of Cash Converters' services.

In store Cash Advance lending has continued to decline during the period, with the net contribution from the product down 23.4% on the previous corresponding period, reflecting a 21.1% drop in loan volumes. However, the overall increase in store profitability demonstrates the ability of store operations to adapt and continually provide services to meet customer needs.

Vehicle financing

Green Light Auto produced a 30.3% improvement in revenues to $10.572 million, and a segment profit before tax of $1.566 million, compared to $437 thousand for the previous corresponding period, in its fourth year of operations in the secured auto finance market. The loan book decreased slightly over the period to $70.048 million (30 June 2019: $71.750 million), however the segment saw a significant decrease in net bad debt as a percentage of revenue on its loan product to 37.6% compared to 47.0% for the previous corresponding period. The segment continues to expand its distribution channels, and to review its credit assessment processes and pursue further efficiencies in its loan management processes.

Financial position

Summarised financial position	**31 Dec 2019 $'000**	**30 Jun 2019 $'000**
Cash at bank	59,364	81,101
Loan receivables	183,759	174,600
Other receivables	13,858	14,087
Inventories	18,520	20,370
Right-of-use assets	57,097	-
Other assets and intangibles	186,581	174,082
Total assets	**519,179**	**464,240**

	31 Dec 2019 $'000	30 Jun 2019 $'000
Lease liabilities	58,077	-
Borrowings	122,364	123,336
Other liabilities	39,759	24,052
Total liabilities	**220,200**	**147,388**
Total equity	**298,979**	**316,852**
Gearing (net debt/equity)	21.1%	13.3%

Receivables (trade and personal loans)
Outstanding loan receivables (personal loans and vehicle finance loans) for the period have increased 5.3% to $183.759 million from $174.600 million at 30 June 2019. Trade and other receivables include loans provided to franchisees in the UK for the purchase of corporate stores and a loan to Cash Converters New Zealand of $2.928 million.

Other assets and intangibles
The Company continues its investment in software development and the store network with capital expenditure of $2.612 million during the period, down from $3.398 million in the previous corresponding period.

Borrowing
The Company decreased its draw down of its securitisation facility with Fortress Investment Group (Fortress) by $2.000 million during the period.

Cash flows
Operating cash outflows during the period were $15.549 million compared to $41.042 million during the half-year ended 31 December 2018. This reflected a $3.343 million reallocation from operating cash outflows to financing cash outflows for repayment of lease liabilities under AASB 16, increases in revenue streams, a decrease in overhead expenses, as well as the first payment for the settlement of the Lynch Proceeding. Overall cash and cash equivalents at period end decreased to $59.364 million (30 June 2019: $81.101 million). Of these balances, $13.789 million (30 June 2019: $12.322 million) consists of restricted cash deposits held as security for transactional banking facilities and cash held in trust for the securitisation facility.

Lynch Proceeding

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 July 2009 to 30 June 2013 (Lynch Proceeding). On 21 October 2019, the Company announced that it had reached a settlement in relation to the Lynch Proceeding, under the terms of which the Company will pay a total of $42.500 million ($32.500 million was paid into trust in November 2019) into a fund for distribution to members of the class. The remaining $10.000 million is to be paid on or before 30 September 2020. The settlement is subject to court approval of its terms, with the approval hearing scheduled for 24 March 2020.

Outlook

Cash Converters was pleased to settle the Lynch Proceeding during the period, removing uncertainty over the impact of the case, and allowing the Company to progress its strategy to continue to transform the business into a diverse, sustainable and increasingly profitable business, with the ambition of being the most trusted and customer-focused business of its type, supplying its customers with a convenient, reliable and valuable range of personal goods and finance solutions.

The focus of the business moving forward is to leverage its existing technologies and brand to reach new customers through its network of retail stores and enhanced online presence.

Subsequent events

On 26 February 2020 the Company announced that Mr Brendan White had resigned as Chief Executive Officer of the Company and that Mr Sam Budiselik had been appointed in the role, effective immediately. Mr Budiselik has been with the Company since 2016 and has served in the role of Chief Operating Officer from July 2017, and also held the role of Interim Chief Executive Officer from August 2018 to March 2019.

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

Auditor's independence declaration

The auditor's independence declaration is included on page 26 of the half-year financial report.

This directors' report is signed in accordance with a resolution of directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the directors

Stuart Grimshaw
Chairman

Perth, Western Australia
26 February 2020

Condensed consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Franchise fee revenue		9,174	7,606
Financial services interest revenue	2	90,163	89,496
Sale of goods	2	42,972	38,205
Other revenues	2	1,611	1,951
Total revenue		143,920	137,258
Financial services cost of sales		(32,799)	(36,083)
Cost of goods sold		(23,570)	(21,562)
Other cost of sales		(1,007)	(1,056)
Total cost of sales		(57,376)	(58,701)
Gross profit		86,544	78,557
Employee expenses	3	(37,628)	(37,332)
Administrative expenses		(4,782)	(4,400)
Advertising expenses		(6,206)	(4,049)
Occupancy expenses	3	(2,273)	(7,634)
Class Action settlement expense	3	(42,500)	(16,400)
Depreciation and amortisation expense	3	(8,652)	(3,872)
Other expenses		(7,828)	(8,304)
Finance costs	3	(6,264)	(5,151)
Share of net profit of equity accounted investments		1,844	930
Profit / (loss) before income tax		(27,745)	(7,655)
Income tax (expense) / benefit		8,348	2,419
Profit / (loss) for the period		(19,397)	(5,236)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		916	422
Other comprehensive income / (loss) for the period		916	422
Total comprehensive profit / (loss) for the period		(18,481)	(4,814)
Earnings / (loss) per share			
Basic (cents per share)		(3.15)	(0.85)
Diluted (cents per share)		(3.15)	(0.85)

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

Condensed consolidated statement of financial position
As at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents	6	59,364	81,101
Trade and other receivables	7	8,297	7,794
Loan receivables	8	135,734	128,374
Inventories		18,520	20,370
Prepayments		9,153	7,766
Current tax receivable		4,022	1,897
Total current assets		235,090	247,302
Non-current assets			
Trade and other receivables	7	5,561	6,293
Loan receivables	8	48,025	46,226
Plant and equipment		4,906	6,173
Right-of-use assets	9	57,097	-
Deferred tax assets		23,301	14,820
Goodwill	10	106,967	106,967
Other intangible assets		26,687	26,924
Prepayments		3,185	3,083
Investments in associates		8,360	6,452
Total non-current assets		284,089	216,938
Total assets		519,179	464,240
Current liabilities			
Trade and other payables		31,133	15,296
Lease liabilities	11	7,005	-
Borrowings	12	88,287	87,826
Provisions		7,522	7,044
Total current liabilities		133,947	110,166
Non-current liabilities			
Lease liabilities	11	51,072	-
Borrowings	12	34,077	35,510
Provisions		1,104	1,712
Total non-current liabilities		86,253	37,222
Total liabilities		220,200	147,388
Net assets		**298,979**	**316,852**
Equity			
Issued capital	13	248,714	248,714
Reserves		8,762	7,238
Retained earnings		41,503	60,900
Total equity		**298,979**	**316,852**

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

Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2019

	Issued capital $'000	Foreign currency translation reserve $'000	Share-based payment reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2018	248,714	5,830	1,177	66,687	322,408
AASB 9 adjustment to opening retained earnings	-	-	-	(4,669)	(4,669)
Balance at 1 July 2018 after AASB 9 adjustment	248,714	5,830	1,177	62,018	317,739
Loss for the period	-	-	-	(5,236)	(5,236)
Exchange differences arising on translation of foreign operations	-	422	-	-	422
Total comprehensive income for the period	-	422	-	(5,236)	(4,814)
Share-based payments	-	-	398	-	398
Balance at 31 December 2018	**248,714**	**6,252**	**1,575**	**56,782**	**313,323**
Balance at 1 July 2019	248,714	6,354	884	60,900	316,852
Loss for the period	-	-	-	(19,397)	(19,397)
Exchange differences arising on translation of foreign operations	-	916	-	-	916
Total comprehensive income for the period	-	916	-	(19,397)	(18,481)
Share-based payments	-	-	608	-	608
Balance at 31 December 2019	**248,714**	**7,270**	**1,492**	**41,503**	**298,979**

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

Condensed consolidated statement of cash flows
For the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Receipts from customers		100,534	86,105
Payments to suppliers and employees		(85,051)	(97,252)
Payment for Class Action settlement	3	(32,500)	(16,400)
Interest received		339	815
Interest received from loans		37,942	32,142
Net (increase) in loans advanced		(28,126)	(37,140)
Interest and costs of finance paid		(6,522)	(7,344)
Income tax paid		(2,165)	(1,968)
Net cash flows (used in) operating activities		(15,549)	(41,042)
Cash flows from investing activities			
Acquisition of intangible assets		(2,312)	(2,774)
Proceeds on disposal of plant and equipment		244	134
Purchase of plant and equipment		(300)	(758)
Loan repaid by associate		-	12,212
Instalment credit loans repaid by franchisees		889	913
Net cash flows provided by / (used in) investing activities		(1,479)	9,727
Cash flows from financing activities			
Proceeds from borrowings		85,250	106,250
Repayment of borrowings		(87,250)	(140,750)
Repayment of lease liabilities		(3,343)	-
Net cash flows provided by / (used in) financing activities		(5,343)	(34,500)
Net increase / (decrease) in cash and cash equivalents		(22,371)	(65,815)
Cash and cash equivalents at the beginning of the period		81,101	139,991
Effects of exchange rate changes on the balance of cash held in foreign currencies		634	136
Cash and cash equivalents at the end of the period	6	**59,364**	**74,312**

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

1. Significant accounting policies

(a) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(b) Statement of compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

(c) Changes to accounting policies

Impact of changes to Australian Accounting Standards and Interpretations

AASB 16 *Leases*

The Group has adopted AASB 16 from 1 July 2019. AASB 16 replaced prior leases guidance, including AASB 117 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Under AASB 16, a contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Under AASB 117, a lease was either a finance lease (on balance sheet) or an operating lease (off balance sheet). AASB 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' if the recognition requirements of a lease are met.

Lessor accounting under AASB 16 is substantially unchanged. Lessors will continue to classify leases as either finance or operating leases using similar principles as in AASB 17, therefore AASB 16 did not have an impact for leases where the Group is the lessor. However, when the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

The Group adopted AASB 16 using the modified retrospective method on the 1 July 2019 by using the option to recognise right-of-use assets at the value of lease liabilities, adjusted for any related prepaid and accrued lease payments for all leases. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at the date of initial application, with no restatement of comparatives.

1. Significant accounting policies (continued)

The Group also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application; and
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Effect of adoption of AASB 16

The adoption of AASB 16 has primarily affected the accounting for the Group's operating leases, including property leases at the corporate store network of 69 stores and head office leases.

For leases previously classified as operating leases under AASB 117, the adoption of AASB 16 resulted in the recognition of a lease liability at the date of initial application by measuring the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application and the recognition of a right-of-use asset at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

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. A balance of $152 thousand of these arrangements related to short-term leases and leases of low-value assets. As at 30 June 2019, management assessed the incremental borrowing rate to be applied to present value calculations and the Group disclosed an estimated impact of right-of-use asset and lease liability in the range of $57 million to $64 million in respect of leases.

A lease liability of $61.482 million was recognised on 1 July 2019 which was within the range disclosed in the financial statements as at 30 June 2019. The Group's weighted average incremental borrowing rates applied to the lease liabilities on 1 July 2019 were 7.60% for leases in Australia and 7.03% for leases in the United Kingdom.

The adoption of AASB 16 impacts the consolidated statement of profit or loss from 1 July 2019 onwards as follows:

- the elimination of operating rental expenses, except for low-value and short-term leases;
- an increase in depreciation and amortisation expenses; and
- an increase in finance cost (interest expense).

The adoption of AASB 16 had the following material impacts on the consolidated statement of financial position:

- recognition of right-of-use assets;
- recognition of current and non-current lease liabilities; and
- recognition of deferred tax assets and liabilities

The adoption of AASB 16 has no net impact on the consolidated statement of cash flows, however impacts the classification of payments between payment for operating and financing activities from 1 July 2019 onwards with the following offsetting changes:

- a decrease in cash paid to suppliers and employees (operating activities);
- an increase in payments for lease liabilities (financing activities); and
- an increase in finance costs (operating activities).

1. Significant accounting policies (continued)

The following table summarises the impact of transition to AASB 16 on 1 July 2019:

	31 December 2019 $'000	1 July 2019 $'000
Right-of-use assets		
Buildings	57,097	61,904
Lease liabilities		
Current	7,005	6,826
Non-current	51,072	54,656
	58,077	61,482
Deferred tax		
Deferred tax asset on lease liabilities	16,880	18,085
Deferred tax liability on right-of-use assets	(16,732)	(18,085)
	148	-

The statement of profit or loss shows the following amounts relating to leases subject to AASB 16:

	31 December 2019 $'000	31 December 2018 $'000
Depreciation expense on right-of-use assets (buildings)	4,754	-
Interest expense (included in finance costs)	2,255	-
	7,009	-

The above has no cash effect to the Group and the changes are for financial reporting purposes only. The statement of cash flows shows the following amounts relating to leases subject to AASB 16:

Interest and costs of finance paid (operating activities)	(2,259)	-
Repayment of lease liabilities (financing expenses)	(3,343)	-
	(5,602)	-

Summary of new accounting policy

The Group assesses whether a contract is or contains a lease, at inception of the contract. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the right of use of an identified asset – this may be specified explicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

At inception or reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

1. Significant accounting policies (continued)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease i.e. the date the underlying asset is available for use. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The cost of the right-of-use asset comprises the initial lease liability amount, initial direct costs incurred when entering into the lease less lease incentives received and an estimate of the costs to be incurred in dismantling and removing the underlying asset and restoring the site on which it is located to the condition required by the terms and conditions of the lease.

Unless the Group is reasonably certain of obtaining ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

An impairment review is undertaken for any right-of-use asset that shows indicators of impairment and an impairment loss is recognised against any right-of-use asset that is impaired.

Lease liabilities

The lease liability is initially measured at the present value of the fixed and variable lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and

1. **Significant accounting policies (continued)**

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group adjusted the lease liability due to changes in lease payments and lease terms during the half-year ended 31 December 2019.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases i.e. those leases that have a lease term of 12 months or less. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (less than $7,500). Payments associated with short-term leases (buildings, equipment and vehicles) and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT equipment and small items of office furniture.

Incremental borrowing rate

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and adjustments specific to the lease (eg term, country, currency and security).

Extension and termination options

Extension and termination options are included in several property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Most of the extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in head office leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was a decrease in recognised lease liabilities and right-of-use assets of $481 thousand.

1. Significant accounting policies (continued)

(d) 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. Revenue

	31 December 2019 $'000	31 December 2018 $'000
Financial services interest revenue		
Personal loan interest and establishment fees	56,703	57,014
Pawnbroking fees	15,840	15,245
Cash advance fee income	7,248	9,561
Vehicle loan interest and establishment fees	10,166	7,191
Other financial services revenue	206	485
	90,163	89,496
Sale of goods		
Retail sales	42,794	38,019
Vehicle trade sales	178	186
	42,972	38,205
Other revenue		
Bank interest	217	567
Other vehicle revenue	198	609
Income from subleasing	150	-
Other revenue	1,046	775
	1,611	1,951

3. Expenses

Employee expenses		
Employee benefits	34,467	34,430
Share-based payments	608	398
Superannuation expense	2,553	2,504
	37,628	37,332
Occupancy expenses		
Rent	105	5,562
Outgoings	1,069	945
Other	1,099	1,127
	2,273	7,634
Depreciation and amortisation expense		
Depreciation	5,890	1,443
Amortisation	2,513	2,412
Loss on write down of assets	249	17
	8,652	3,872

3. Expenses (continued)

	31 December 2019 $'000	31 December 2018 $'000
Finance costs		
Interest	4,009	5,151
Interest expense on lease liabilities	2,255	-
	6,264	5,151

Class Action settlement expense
On 21 October 2019, the Company announced that it had reached a settlement in relation to the Lynch Proceeding, under the terms of which the Company will pay a total of $42.500 million ($32.500 million of which was paid in November 2019) into a fund for distribution to members of the class. The remaining $10.000 million is to be paid on or before 30 September 2020. The settlement is subject to court approval of its terms.

On 22 October 2018, the Company reached a settlement in relation to the McKenzie Proceeding, 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.

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

4. Segment information (continued)

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, 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
Half-year ended 31 December 2019						
Interest revenue (i)	631	26,244	59,696	10,196	-	96,767
Other revenue	14,177	42,677	-	376	-	57,230
Gross revenue	14,808	68,921	59,696	10,572	-	153,997
Less inter-company sales	(3,678)	(5,341)	(1,263)	-	-	(10,282)
Segment revenue	11,130	63,580	58,433	10,572	-	143,715
External interest revenue (ii)	-	-	-	-	205	205
Total revenue	11,130	63,580	58,433	10,572	205	143,920
EBITDA (iii)	7,411	11,810	19,949	3,043	(55,042)	(12,829)
Less inter-company eliminations	(458)	1,487	(1,033)	4	-	-
Segment EBITDA	6,953	13,297	18,916	3,047	(55,042)	(12,829)
Depreciation and amortisation	(451)	(4,946)	(274)	(158)	(2,823)	(8,652)
EBIT	6,502	8,351	18,642	2,889	(57,865)	(21,481)
Interest expense	(49)	(2,020)	(2,755)	(1,323)	(117)	(6,264)
Profit / (loss) before tax	6,453	6,331	15,887	1,566	(57,982)	(27,745)
Income tax expense						8,348
Profit for the period						(19,397)
Half-year ended 31 December 2018						
Interest revenue (i)	1,064	27,067	60,943	7,317	-	96,391
Other revenue	9,356	37,827	-	795	-	47,978
Gross revenue	10,420	64,894	60,943	8,112	-	144,369
Less inter-company sales	(782)	(5,216)	(1,680)	-	-	(7,678)
Segment revenue	9,638	59,678	59,263	8,112	-	136,691
External interest revenue (ii)	-	-	-	-	567	567
Total revenue	9,638	59,678	59,263	8,112	567	137,258
EBITDA (iii)	6,919	6,612	18,359	1,599	(32,121)	1,368
Less inter-company eliminations	(472)	1,948	(1,479)	3	-	-
Segment EBITDA	6,447	8,560	16,880	1,602	(32,121)	1,368
Depreciation and amortisation	(137)	(1,343)	(85)	(134)	(2,173)	(3,872)
EBIT	6,310	7,217	16,795	1,468	(34,294)	(2,504)
Interest expense	(166)	-	(3,325)	(1,031)	(629)	(5,151)
Profit / (loss) before income tax	6,144	7,217	13,470	437	(34,923)	(7,655)
Income tax benefit						2,419
Loss for the period						(5,236)

(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

4. Segment information (continued)

	31 December 2019 $'000	30 June 2019 $'000
Group assets by reportable segment		
Franchise operations	20,939	33,709
Store operations	118,394	75,282
Personal finance	249,199	213,365
Vehicle financing	65,247	63,256
Total of all segments	453,779	385,612
Unallocated assets	65,400	78,628
Consolidated total assets	519,179	464,240

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

	31 December 2019 $'000	30 June 2019 $'000
Group liabilities by reportable segment		
Franchise operations	7,666	6,075
Store operations	61,555	8,008
Personal finance	103,408	89,144
Vehicle financing	37,995	39,475
Total of all segments	210,624	142,702
Unallocated liabilities	9,576	4,686
Consolidated total liabilities	220,200	147,388

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

5. Dividends

	31 December 2019		31 December 2018	
	Per share cents	Total $'000	Per share Cents	Total $'000
Recognised and paid amounts				
Final franked dividend	-	-	-	-
Proposed and unrecognised amounts				
Interim franked dividend	-	-	-	-

6. Cash and cash equivalents

	31 December 2019 $'000	30 June 2019 $'000
Cash on hand	1,978	2,407
Cash at bank	57,386	78,694
	59,364	81,101

Cash at bank includes restricted cash of $6.224 million (30 June 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, and a further $5.730 million (30 June 2018: $5.730 million) on deposit as security for banking facilities.

7. Trade and other receivables

	31 December 2019 $'000	30 June 2019 $'000
Current		
Trade receivables	1,391	1,151
Allowance for impairment losses	(3)	(26)
Total trade receivables (net)	1,388	1,125
Finance lease receivables	-	128
Vendor finance loans	1,847	1,817
Other receivables	5,062	4,724
Total trade and other receivables	8,297	7,794
Non-current		
Vendor finance loans	2,611	3,358
Loan to associate	2,928	2,913
Other receivables	22	22
Total trade and other receivables	5,561	6,293

8. Loan receivables

	31 December 2019 $'000	30 June 2019 $'000
Current		
Personal short-term loans (unsecured)	154,176	147,020
Allowance for impairment losses	(26,099)	(27,143)
Deferred establishment fees	(7,560)	(4,712)
Total personal short-term loans (net)	120,517	115,165
Vehicle finance loans (secured)	19,392	16,429
Allowance for impairment losses	(2,954)	(2,242)
Deferred establishment fees	(1,221)	(978)
Total vehicle finance loans (net)	15,217	13,209
Total loan receivables	135,734	128,374
Non-current		
Personal loans (unsecured)	7,154	5,998
Allowance for impairment losses	(1,209)	(992)
Total personal loans (net)	5,945	5,006
Vehicle finance loans (secured)	50,676	50,430
Allowance for impairment losses	(5,406)	(6,209)
Deferred establishment fees	(3,190)	(3,001)
Total vehicle finance loans (net)	42,080	41,220
Total loan receivables	48,025	46,226

9. Right-of-use assets

	Buildings $'000
Cost	
At 1 July 2019 - restated	61,904
Additions	38
Other changes	(144)
Foreign exchange differences	59
At 31 December 2019	61,857
Accumulated depreciation	
At 1 July 2019 - restated	-
Charge for the period	(4,754)
Foreign currency exchange differences	(6)
At 31 December 2019	(4,760)
Carrying amount	
At 31 December 2019	57,097
At 1 July 2019 - restated	61,860

The Group leases including retail premises for corporate stores and corporate offices. The average lease term is 6 years.

	Half-year ended 31 December 2019 $'000
Amounts recognised in profit or loss	
Depreciation expense on right-of-use assets	4,754
Interest expense on lease liabilities	2,255
Expense relating to short-term leases	105
Expense relating to leases of low value assets	14
Income from sub-leasing right-of-use assets	150

10. Goodwill

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units or groups of cash-generating units:

	31 December 2019 $'000	**30 June 2019 $'000**
Personal finance	90,561	90,561
Store operations	16,406	16,406
	106,967	106,967

10. Goodwill (continued)

Impairment testing

Half-year ended 31 December 2019

Impairment testing was completed at 30 June 2019, based on management's expectation of future performance, taking into account applicable legislative requirements at the date of the impairment testing, being 30 June 2019. No impairments were identified at 30 June 2019. Refer to note 3.5 of the 30 June 2019 annual financial statements for further information.

Impairment testing has been updated to reflect business performance in the half-year ended 31 December 2019. No impairments were identified based on expected future performance under legislative requirements at the date of the impairment testing, being 31 December 2019.

Impairment sensitivity disclosures

As disclosed in note 3.5 of the 30 June 2019 annual financial statements, 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.

Two Bills have been introduced to Parliament, the National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019 on 16 September 2019 and National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019 (No. 2) on 2 December 2019. Together the Bills propose to amend the National Consumer Credit Protection Act as follows:

- The protected earnings amount (PEA) for SACCs will be reduced from 20 per cent of a consumer's gross income in relation to Centrelink recipients, to 10 per cent of a consumer's net income for each payment period; and
- Extend the PEA cap to all borrowers (PEA and non-PEA), not just those receiving 50% or more of their income from Centrelink.

The Bills have not yet been passed into law. If passed however the Bills will have effect 12 months from the date of receiving Royal Assent. Since the30 June 2019 financial report was prepared, management has continued to analyse the likely impact of the Bills and has concluded that the key impact would be to reduce the amount borrowed by affected customers. Management will continue to monitor developments and the Group's response on an ongoing basis.

No further action has been taken by the government at the date of this report and the Company is continuing consultations with various stakeholders around these recommendations, with no changes to the applicable SACC legislation having currently been enacted or substantially enacted.

Note 3.5 of the 30 June 2019 annual financial statements included details of the key assumptions applied in the impairment testing as at 30 June 2019, and also noted that 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.

11. Lease liabilities

		31 December 2019 $'000	30 June 2019 $'000
Current			
Lease liability	(i)	7,005	-
Non-current			
Lease liability	(i)	51,072	-

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2019 $'000	30 June 2019 $'000	31 December 2019 $'000	30 June 2019 $'000
Not later than one year	11,368	-	7,005	-
Later than one year and not later than five years	31,894	-	21,554	-
Later than five years	33,518		29,518	-
	76,780	-	58,077	-
Less unexpired interest	(18,703)	-	-	-
	58,077	-	58,077	-

The Group's weighted average incremental borrowing rates applied to the lease liabilities at 31 December 2019 were 7.60% for leases in Australia and 7.03% for leases in the United Kingdom (30 June 2019: nil).

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

12. Borrowings

		31 December 2019 $'000	30 June 2019 $'000
Current			
Securitisation facility	(i)	87,653	87,826
Insurance premium funding		634	-
Total borrowings		88,287	87,826
Non-current			
Securitisation facility	(i)	34,077	35,510

(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 Group 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.

13. Issued capital

	31 December 2019 Number	31 December 2018 Number	31 December 2019 $'000	31 December 2018 $'000
Balance at beginning of half-year	616,437,946	616,437,946	248,714	248,714
Issued during half-year	-	-	-	-
Balance at end of half-year	616,437,946	616,437,590	248,714	248,714

14. Contingent liabilities

The directors are not aware of any material contingent liabilities in existence as at 31 December 2019 requiring disclosure in the financial statements.

15. Subsequent events

On 26 February 2020 the Company announced that Mr Brendan White had resigned as Chief Executive Officer of the Company and that Mr Sam Budiselik had been appointed in the role, effective immediately. Mr Budiselik has been with the Company since 2016 and has served in the role of Chief Operating Officer from July 2017, and also held the role of Interim Chief Executive Officer from August 2018 to March 2019.

There has not been any other matter or circumstance other than that referred to in the financial statements or notes thereto, that has arisen since the end of the half-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 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.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the directors

Stuart Grimshaw
Chairman

Perth, Western Australia
26 February 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

26 February 2020

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 review of the financial statements of Cash Converters International Limited for the half year ended 31 December 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 review; and
(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

We have reviewed the accompanying half-year financial report of Cash Converters International Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Cash Converters International Limited's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cash Converters International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cash Converters International Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cash Converters International Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 26 February 2020