# Cash Converters International Limited

## ABN 39 069 141 546

## Financial Report

## For the year ended 30 June 2020

# 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 |
| Ms Julie Elliott | Non-Executive Director |
| Mr Lachlan Given | Non-Executive Director |
| Mr Robert Hines | 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 ("Cash Converters" or "the Company") and entities controlled by the Company and its subsidiaries ("the Group") is diverse, generating revenues from franchising, consumer retail store operations, personal finance and vehicle finance and is supported by a corporate head office in Perth, Western Australia. The Company operates in Australia and the United Kingdom and has an equity interest of 25% in Cash Converters New Zealand. There is a franchise presence in a further 13 countries around the world.

**Impact of COVID-19**

The Group has continued to focus on the health and wellbeing of its employees and customers. The ability to service customers while doing so and remain profitable demonstrates resilience and an ability to operate effectively during periods of significant uncertainty and change. This operating and financial review reflects what has been an incredibly difficult operating period and details how Cash Converters has rapidly adapted to ensure that customers are supported in their time of greatest need. The outcomes experienced include the impacts of government fiscal support and stimulus measures.

The impact of COVID-19 on operations was experienced from mid-March when the closure of non-essential businesses and the implementation of stay-at-home requirements began.

All Australian Corporate stores remained open for business throughout the financial year while observing the necessary hygiene and social distancing measures. This outcome was possible through the tremendous care and effort shown by every member of the team. However, as an international franchisor the impact of COVID-19 was felt differently across the many regions in which the Group operates. Most significantly, all franchise stores in the United Kingdom were closed by Government mandate between 23 March 2020 to 1 June 2020. The Group's equity accounted associate in New Zealand was similarly impacted by lockdown restrictions starting on 25 March 2020, returning progressively to the lowest level of restrictions by 8 June 2020. Revenue from these segments were impacted as a result, but the quantum is immaterial relative to the Group's earnings profile.

It is worth noting that Cash Converters was not eligible for and made no direct claims under the JobKeeper Payment scheme allowances. Economic support packages provided to affected workers, businesses and the broader community had a noticeable impact on business.

As mentioned in its 1 July 2020 Business Update to the market, Cash Converters has experienced a significant decline in personal and vehicle loan outgoings and associated loan book balances since mid-March 2020 due to changes in customer demand and the Company's own prudent approach to eligibility refinement. These declines continued into June 2020, and while still below pre-COVID forecasts the Company has reported an increase in lending activity in the first months of the new financial year (FY 2021). The associated reduction in revenue from this business line was partially offset by a counter-cyclical increase in retail sales during the same period.

Despite the progress made domestically and abroad towards limiting the spread of COVID-19, significant uncertainty remains. There is prevailing uncertainty with respect to forward-looking statements and there has been a focus on presenting appropriate disclosure with respect to business impacts, risks and uncertainties and key assumptions.

**Key financial performance highlights:**

| | As reported | | Operating [1] | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Total revenue | 279,008 | 281,565 | 279,008 | 281,565 |
| (Loss) / profit for the year | (10,491) | (1,692) | 19,573 | 11,993 |
| EBIT [2] | (693) | 8,232 | 42,255 | 27,783 |
| EBITDA [2] | 19,168 | 21,454 | 62,116 | 41,005 |

[1] The operating results are presented net of the significant expense items outlined below that were directly associated with the settlement of class action litigation claims, to aid the comparability and usefulness of the financial information reflecting the underlying performance of the business. This information should be considered in addition to, but not instead of or superior to, the Group's financial statements prepared in accordance with IFRS. The operating results presented may be determined or calculated differently by other companies, limiting the usefulness of those measures for external comparative purposes.

[2] The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods. A reconciliation of the impact to EBITDA of first time adoption of AASB 16 *Leases* is included in this report.

Cash Converters reported strong in-store and online retail sales. Conversely, customers' need for short term credit was temporarily subdued interrupting what had been an above forecast first nine months to the financial year for this business line.

(Loss) / profit for the year, EBIT and EBITDA are presented in the table above as reported and on an operating basis to illustrate the impact of the significant expense inclusive of legal costs incurred on class action litigation claims.

In October 2019 the Group agreed to a settlement payment of $42.500 million ($32.500 million payable upfront and $10.000 million payable by September 2020) on the sole remaining Lynch class action lawsuit. This action had been previously lodged on behalf of borrowers residing in Queensland who took out personal loans between July 2009 and June 2013.

The settlement received Federal Court approval on 24 March 2020 and upon payment of the balance $10.000 million by 30 September 2020, the matter will be finalised.

The prior year comparative is presented to illustrate the settlement inclusive of legal costs of the separate McKenzie class action in November 2018.

These costs are reported in the Head Office segment.

EBITDA is reconciled and presented below on what is considered a comparable basis in this transition year of the new lease standard:

| | **2020** | **2019** |
|---|---|---|
| | **$'000** | **$'000** |
| EBITDA | 19,168 | 21,454 |
| Class Action litigation claim and costs | 42,948 | 19,551 |
| EBITDA – operating basis | 62,116 | 41,005 |
| Rental lease payments | (11,055) | - |
| EBITDA – comparable basis | 51,061 | 41,005 |

The Group has applied AASB 16 *Leases* retrospectively from 1 July 2019 with no restatement of comparatives. FY 2020 reported EBITDA no longer includes an expense amounting to $11.055 million for rental lease payments made under leases that would have previously been classified as operating leases.

Consolidated revenues and results by significant segment as reported are set out below:

| | Segment revenues | | Segment EBITDA [1] | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Personal finance | 115,395 | 125,136 | 49,171 | 38,524 |
| Vehicle financing | 20,961 | 18,160 | 2,882 | 928 |
| Store operations | 125,449 | 118,216 | 25,749 | 13,897 |
| Franchise operations | 16,874 | 19,124 | 10,118 | 11,420 |
| Totals before head office costs | 278,679 | 280,636 | 87,920 | 64,769 |
| Head office | 329 | 929 | (68,752) | (43,315) |
| **Totals after head office costs** | 279,008 | 281,565 | 19,168 | 21,454 |
| Depreciation, amortisation and impairment | | | (19,861) | (13,222) |
| Finance costs | | | (12,607) | (10,598) |
| (Loss) before income tax | | | (13,300) | (2,366) |
| Income tax benefit | | | 2,809 | 674 |
| **(Loss) for the year** | | | (10,491) | (1,692) |

1 The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods.

EBITDA on an operating basis and a comparable basis is set out below:

| | Operating basis [2] | | Comparable basis [3] | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Personal finance | 49,171 | 38,524 | 48,729 | 38,524 |
| Vehicle financing | 2,882 | 928 | 2,882 | 928 |
| Store operations | 25,749 | 13,897 | 16,446 | 13,897 |
| Franchise operations | 10,118 | 11,420 | 9,686 | 11,420 |
| Totals before head office costs | 87,920 | 64,769 | 77,743 | 64,769 |
| Head office | (25,804) | (23,764) | (26,7682 | (23,764) |
| **Total EBITDA [1]** | 62,116 | 41,005 | 51,061 | 41,005 |

1 The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods.

2 The operating results are presented net of the significant expense items outlined above that were directly associated with the settlement of class action litigation claims, to aid the comparability and usefulness of the financial information reflecting the underlying performance of the business. This information should be considered in addition to, but not instead of or superior to, the Group's financial statements prepared in accordance with IFRS. The operating results presented may be determined or calculated differently by other companies, limiting the usefulness of those measures for external comparative purposes.

3 The Company presents here EBITDA calculated on a basis comparable in FY 2020 to FY 2019 with rental lease payments of $11.055 million deducted as it would have been without the implementation of AASB 16 *Leases*.

The most significant impact to revenue and earnings has been in the last quarter of the financial year and in personal and vehicle finance as demand reduced from customers that benefited from government stimulus, and eligibility was impacted including for customers who experienced job losses. The Group experienced early settlements on all lending products and a decline in demand and eligibility impacted origination with a year on year reduction reported in principal advanced.

The decline in vehicle finance outgoings during the last quarter of the year was significant with earlier than reforecast loan settlements due to customer refinancing patterns and tightened lending criteria. For illustration purposes in the tables below pawnbroking and Cash Advance services are included in personal finance.

| | 2020 $'000 | 2019 $'000 | Variance |
|---|---|---|---|
| *Principal advanced* | | | |
| Personal finance | 230,948 | 282,567 | -18.3% |
| Vehicle finance | 18,839 | 38,648 | -51.3% |
| Total | 249,787 | 321,215 | -22.2% |

Based on the current trajectory and economic environment the year-on-year reduction in gross loan book balances will likely remain in FY 2021 while the Company invests heavily in replenishing these books. This is expected to have a relatively negative effect on revenue and earnings. The first half of the current financial year (H1 FY 2021) is forecast to be challenging as the reduction in lending volume experienced in the previous quarter manifests. However, this impact is viewed by the Company as temporary and the expectation is that by H2 FY 2021 borrowing behaviours will have returned to what would historically be considered normal.

| | 2020 $'000 | 2019 $'000 | Variance |
|---|---|---|---|
| *Gross loan books* | | | |
| Personal finance | 101,690 | 148,307 | -31.4% |
| Vehicle finance | 58,307 | 62,881 | -7.3% |
| Total | 159,997 | 211,188 | -24.2% |

Store operations demonstrated counter-cyclical retail behaviour and particularly strong online sales of home entertainment and technology items – the assumption being that many households were spending increasing amounts of time at home or working remotely. Store sales trended lower in the final months of FY 2020 as inventory levels decreased, although this has remained above the monthly average experienced in prior years. Retail gross profit margins have held strong through the year.

The New Zealand operations responded during the year to changes in consumer credit legislation with the introduction of an alternative complying personal loan product. The legislative change and the impact of COVID-19 necessitated a review by the Company of the carrying value of the 25% equity investment in this operation. The application of judgement was required due to the absence of deep historical evidence on product performance and the uncertainties associated with COVID-19 impacts. Included in the reported value is an impairment loss provision of $2.300 million.

**Key financial position highlights**

| | 2020 $'000 | 2019 $'000 | Variance |
|---|---|---|---|
| Cash and cash equivalents | 106,548 | 81,101 | 31.4% |
| Net loan receivables | 129,616 | 174,600 | -25.8% |
| Trade and other receivables | 11,630 | 14,087 | -17.4% |
| Inventories | 15,221 | 20,370 | -25.3% |
| Intangible assets | 128,338 | 133,891 | -4.1% |
| Other assets | 88,481 | 40,191 | 120.2% |
| **Total assets** | **479,834** | **464,240** | **3.4%** |
| | | | |
| Borrowings | 87,792 | 123,336 | -28.8% |
| Other liabilities | 85,671 | 24,052 | 256.2% |
| **Total liabilities** | **173,463** | **147,388** | **17.7%** |
| | | | |
| **Total equity** | **306,371** | **316,852** | **-3.3%** |
| | | | |
| Gearing (net debt / equity) | -6.1% | 13.3% | |

The Group closed the year with a strong balance sheet. Operational cash flow generated was $70.111 million (2019: $31.788 million used) with net repayment of borrowings of $43.560 million (2019: $35.000 million). After cash flows used in investing activities of $1.776 million (2019: $7.772 million provided) the Company generated a net cash surplus of $24.775 million (2019: $59.066 million net cash outflow). Operational cash flow generated in the current year includes the settlements on loan books and decreased outgoings experienced, particularly in the last quarter.

The Group determined to fund the class action settlement of $42.500 million (and the associated legal costs) with cash on hand generated from operations. Of this amount, $32.500 million was paid during the year with the final settlement payment due and payable on 30 September 2020 and provided for in other liabilities.

Cash and cash equivalents include restricted cash of $4.839 million (2019: $6.592 million) to operate the Group's securitisation facility with Fortress Finance and $6.270 million (2019: $5.730 million) on deposit as security for banking facilities. The Group closed the year with undrawn securitisation facility funding lines of $60.750 million.

Net loan receivables reflect reduced demand experienced during the last quarter of the year and the Group has responded in the assessment of expected credit loss provisioning to the potential impact of COVID-19. In addition to the usual considerations applied, the assessment has required the application of judgement in anticipation of relatively high levels of unemployment persisting. A suitable economic risk reserve assessed within the reasonable range of possible outcomes based on this judgement has been incorporated into the impairment loss provision. The overall provision as a percentage of the gross loan book has increased from the prior year at 17.5% to 19.0%.

Inventories reduced year-on-year due to above forecast retail demand and includes an appropriate assessment of obsolescence provision.

Consistent with previous financial years, the carrying value of intangible assets has been assessed for and recorded net of any required impairment charge. Included in the assessment of the carrying value of goodwill is the application of judgement with respect the likelihood of scope and form as well as timing of any future possible regulatory changes on which there remains uncertainty, as well as the potential impact of COVID-19.

Included in other assets is a right-of-use asset generated with the introduction of AASB 16 *Leases*, with recognition of a corresponding lease liability, and the carrying value of the investment in the New Zealand operation inclusive of the provision impairment.

On 30 June 2020, the Group finalised an agreement with Fortress Investment Group ("Fortress") to extend the term of the securitisation funding facility through to 18 December 2022. The reduction in balance year on year reflects the impact of reduced lending activity during the financial year, and the gearing ratio presenting as a negative ratio due to the available cash exceeding the borrowings drawn down amount.

**Culture and people**

The values and culture of Cash Converters are the foundation of its success and the reason it has continued to operate for over 36 years. Its people are passionate and proud to help others. With care and respect, their focus is to provide customers with solutions through a reliable and convenient supply of retail and personal finance products.

The Net Promotor Score (NPS) system is used to measure customer engagement. NPS is measured on a customer's willingness to recommend Cash Converters to a friend or family member. Customers are surveyed at multiple stages of the journey and this data is referenced daily to improve service and celebrate team members.

With a positive NPS score of 62 (2019: 61) Cash Converters demonstrates the significant value it adds to its customers and the wider community.

**Business Risk Assessment**

Like all businesses, Cash Converters faces uncertainty and the ability to understand, manage and mitigate risk provides a competitive advantage.

For example, as a provider of personal finance products there is an inherent risk that customers may not meet their expected repayments as they manage their financial commitments. Cash Converters' success in working with these customers over time is based on many factors that mitigate compliance risk and risk of default with those who may subsequently experience financial difficulty. These include:

- Treating customers with empathy, care, and respect
- A high investment in engagement methods to provide customers with freedom of choice
- Efficient and thorough understanding and assessment of customer eligibility prior to origination
- A value-driven culture where a premium is placed on customer service and unlocking possibilities together.

While responsible lending policies and a customer-first approach aims to minimise risk, credit risk is influenced by factors outside the control of Cash Converters such as unemployment, relative income growth, consumer confidence and interest rates. The risk of default is ever-present. Cash Converters often has the advantage in offering credit products to customers that it has served over many years and knows well, affording a unique opportunity to provide a high level of service.

The Company's ability to accurately assess value, purchase and sell quality consumer goods at appropriate prices is influenced by many factors. Again, while acknowledging these risks, the depth of skill and experience in this specialist area is a source of competitive advantage for Cash Converters.

Cash Converters welcomes the industry emphasis towards non-financial risk, including conduct and culture as well as detecting, deterring and disrupting criminal abuse of the financial system. The Company views these commitments as an area of continuous improvement and continues to strengthen its risk management and compliance capabilities while engaging transparently with regulators (ASIC and AUSTRAC).

Outside of these exists the accepted risks of regulatory change, poorly executed strategy, failure to respond appropriately to changes in technology and the threat posed through competitor behaviours, all of which are a source of constant consideration and review by the Company's management team and Board of Directors.

**Outlook**

Revenue and earnings for the first half of FY 2021 are expected to be significantly lower than previous periods as the impact of COVID-19 manifests itself more fully. Since the end of the financial year, Victoria has entered "Stage 4" pandemic restrictions impacting 19 metropolitan corporate stores and 9 franchise stores with effect from Thursday 6 August 2020 for a minimum six week period. Online retail, pawnbroking and personal finance services have been maintained and embraced by affected customers.

The extent of the COVID-19 impact is dependent upon the longevity and severity of the pandemic, the pace of business re-openings and rebound, the impact of government responses and the degree to which customer behaviours return to historical norms. The full impacts of the COVID-19 pandemic have yet to result in anticipated increases in loan repayment delinquencies due to the government stimulus package supporting consumers. Cash Converters' proven ability to respond effectively to these changes provides a competitive advantage.

The Company is of the view that it is well positioned to respond to the eventual increase in demand for personal and vehicle financing.

The advantage of a diversified in-store and online customer offering has been demonstrated, particularly in the current economic climate, and a key pillar of Cash Converters' strategy over the following 12 months is to consolidate its position domestically as a lender and retailer of choice.

The strength of the balance sheet provides the Company with greater resources to better serve its customers at a time when they need it most. To deliver on its strategy the Company is investing in its critical capabilities of risk and compliance, technological innovation and product development. These capabilities will be deployed to capitalise upon any near-term opportunities with the intention of generating long-term value for customers and shareholders.

The directors of Cash Converters International Limited submit the following report of the Company for the financial year ended 30 June 2020. 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

During the financial year Mr Grimshaw held the role of 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 a directorship with the following listed companies:

| *Company* | *Commenced* | *Ceased* |
|---|---|---|
| EZCORP Inc | 3 November 2014 | 6 July 2020 |

***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 Kevin Dundo – Non-Executive Director***
Appointed director 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 Imdex Limited (ASX: IMD) and Avenira Limited (ASX: AEV) and Non-Executive Chairman of Red 5 Limited (ASX: RED).

Mr Dundo is a member of the Company's Audit and Risk Committee and Remuneration and Nomination Committee, and from 14 December 2018 to 9 June 2020 was 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 | - |
| Avenira Limited | 22 October 2019 | - |

***Ms Julie Elliott – Non-Executive Director***
Appointed director 14 April 2020

Ms Elliott is currently a Company Director and Consultant and has over 30 years' experience in both executive and director roles across banking, financial services and government. Her previous positions include Chief Executive Officer at Bank of Sydney, Chair of State Trustees Limited and senior management roles with major banks. In addition to various advisory and consulting roles, Ms Elliott is currently a Director and Chair of the governance and remuneration committee at P&N Bank, and a Director of Asia Pacific Capital Ltd and Australian Invoice Finance Limited. She is a Fellow and Graduate of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand and FINSIA.

Ms Elliott is the Chair of the Company's Remuneration and Nomination Committee, and a member of the Audit and Risk Committee.

Over the past 3 years Ms Elliott has not held any directorships with other listed companies.

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

Until 18 September 2019 Mr Given held the role of Executive Chairman of EZCORP Inc and is now Head of M&A and Funding. He is 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.

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 | 18 September 2019 |

***Mr Robert Hines – Non-Executive Director***
Appointed director 14 April 2020

Mr Hines is a qualified accountant and has over 30 years' experience across the energy, agriculture and banking and finance sectors with senior executive roles focusing on retail, operations and finance. Prior to commencing his current role as Chief Operating Officer at Queensland Sugar Ltd, Mr Hines held senior executive roles including Chief Financial Officer at each of Bank of Queensland (ASX: BOQ), Suncorp (ASX: SUN) and QIC. Mr Hines is a Fellow of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand and CPA Australia and a Senior Fellow of FINSIA.

Mr Hines is the Chair of the Company's Audit and Risk Committee, and a member of the Remuneration and Nomination Committee.

Over the past 3 years Mr Hines has not held any directorships with other listed companies.

**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 | 8,175,694 | - |
| Mr K Dundo | - | - |
| Ms J Elliott | - | - |
| Mr L Given | - | - |
| Mr R Hines | 422,000 | - |

**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 (ASX: BOQ) for 15 years, where he held the roles of Company Secretary and Group General Counsel. His career encompasses banking and financial services, 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 2020 was $10.491 million (2019: $1.692 million) after an income tax benefit of $2.809 million (2019: $674 thousand).

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**

Victoria entered Stage 4 pandemic restrictions with effect from Thursday 6 August 2020 for a minimum six week period, impacting 19 metropolitan corporate stores and 9 franchise stores. The ongoing impact is not able to be estimated by the directors at this point in time.

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 27 August 2020 the Company resolved that there would be no final dividend in respect of the financial year ended 30 June 2020.

No final dividend was paid in respect of the financial year ended 30 June 2019.

**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 | 3,909,058 | Ordinary | Nil | 30 Jun 2021 |
| Cash Converters International Limited | 10,201,088 | Ordinary | Nil | 30 Jun 2022 |

The performance rights above are in substance share options with an exercise price of nil, which vest and may potentially be 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 or other interest issue other than bonus share issues 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 | 8 | 8 | 5 | 5 | 4 | 4 |
| Mr P Cumins | 8 | 8 | 5* | 5* | 4* | 4* |
| Mr K Dundo | 8 | 8 | 5 | 5 | 4 | 4 |
| Ms J Elliott | 3 | 3 | 2 | 2 | 1 | 1 |
| Mr L Given | 8 | 8 | 5* | 5* | 4* | 4* |
| Mr R Hines | 3 | 3 | 2 | 2 | 1 | 1 |

* 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**

This remuneration report forms part of the directors' report for the year ended 30 June 2020 and has been prepared in accordance with the Corporations Act, applicable regulations and the Company's policies regarding key management personnel (KMP) remuneration governance.

KMP includes all directors and executives 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 |
| | Remuneration and Nomination Committee member |
| | Chair of Remuneration and Nomination Committee (to 9 June 2020) |
| Mr Kevin Dundo | Audit and Risk Committee member |
| | Chair of Audit and Risk Committee (to 9 June 2020) |
| | Remuneration and Nomination Committee member |
| Ms Julie Elliott | Non-executive director (from 14 April 2020) |
| | Audit and Risk Committee member (from 14 April 2020) |
| | Remuneration and Nomination Committee member (from 14 April 2020) |
| | Chair of Remuneration and Nomination Committee (from 9 June 2020) |
| Mr Lachlan Given | Non-executive director |
| Mr Robert Hines | Non-executive director (from 14 April 2020) |
| | Audit and Risk Committee member (from 14 April 2020) |
| | Chair of Audit and Risk Committee (from 9 June 2020) |
| | Remuneration and Nomination Committee member (from 14 April 2020) |

| ***Executive director*** | |
|---|---|
| Mr Peter Cumins | Executive Deputy Chairman |

| ***Senior Executives classified as KMP*** | |
|---|---|
| Mr Sam Budiselik | Chief Executive Officer (from 26 February 2020) |
| | Chief Operating Officer (to 26 February 2020) |
| Mr Leslie Crockett | Chief Financial Officer (from 2 June 2020) |
| Mr Brad Edwards | General Counsel and Company Secretary |
| Mr Peter Egan | Chief Risk Officer (from 3 February 2020) |
| Mr Ben Cox | General Manager Corporate Distribution (to 13 September 2019) |
| Mr Martyn Jenkins | Chief Financial Officer (to 2 September 2019) |
| Mr Brendan White | Chief Executive Officer (to 26 February 2020) |

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

### *2.1 Remuneration policy and relationship to performance*

In setting the Company's remuneration strategy, the Remuneration Committee makes recommendations which:

a) attract, retain and motivate senior executives to deliver long term sustainable growth within an appropriate control framework
b) demonstrate a clear and strong correlation between performance and reward; and
c) align the interests of senior executives with those of the Company's shareholders.

The following table shows the statutory key performance indicators of the Group over the last five years:

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Revenue from continuing operations | 279,008 | 281,565 | 260,345 | 271,241 | 311,599 |
| Net profit / (loss) before tax from continuing operations | (13,300) | (2,366) | 31,271 | 28,198 | 31,171 |
| Net profit / (loss) after tax | | | | | |
| - continuing operations | (10,491) | (1,692) | 22,503 | 20,618 | 25,894 |
| - discontinued operations | | - | - | - | (31,166) |
| **Profit/(loss) after tax** | **(10,491)** | **(1,692)** | **22,503** | **20,618** | **(5,272)** |
| | | | | | |
| Share price | **Cents** | **cents** | **cents** | **cents** | **cents** |
| - beginning of year | 16.0 | 31.0 | 31.5 | 43.5 | 70.0 |
| - end of year | 17.5 | 16.0 | 31.0 | 31.5 | 43.5 |
| Dividend (i) | | | | | |
| - interim | - | - | - | - | 2.00 |
| - final dividend | - | - | - | - | 1.00 |
| Earnings per share from continuing and discontinued operations | | | | | |
| - basic | (1.70) | (0.27) | 4.55 | 4.21 | (1.09) |
| - diluted | (1.70) | (0.27) | 4.43 | 4.12 | (1.09) |

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

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

The Remuneration Committee is a committee of the Board responsible for making recommendations to the Board on:

a) Base salaries for executives and Board and Committee fees for non-executive Directors
b) Short term incentives for senior executives; and
c) Incentive and equity-based remuneration plans.

The Corporate Governance Statement and the Remuneration Committee Charter provide further information on the role of this Committee. These documents and related policies and practices are available on the Company website at https://www.cashconverters.com/governance/remuneration-nomination.

<u>Executive KMP</u>

The Remuneration Policies are designed to ensure that remuneration outcomes are aligned with the long-term success of the Group. Incentives are based on the achievement of sustained growth in earnings as well as relative shareholder return. These measures provide a clear and strong correlation between performance and reward and align the interests of senior executives with those of the Company's shareholders.

The overall remuneration structure remains similar to the prior year comprising:

a) Executive KMP fixed remuneration packages, consisting of base salary and superannuation as per the Superannuation Guarantee (Administration) Act 1992, in line with those paid for roles with equivalent responsibilities by companies of a similar market capitalisation
b) A Short-Term Incentive (STI), payable only on achievement of annual financial and non-financial strategic targets
c) A Long-Term Incentive (LTI), paid in the form of performance rights potentially converting to shares after a three-year performance period, based on the following:
    - 50 per cent dependent on earnings per share compound annual growth rate over a three-year performance period; and
    - 50 per cent dependent on total shareholder return (TSR) relative to the S&P ASX Small Industrials TR Index over the same three-year performance period.

Eligibility to participate in the STI and/or LTI is at the recommendation of the Remuneration Committee and approval of the Board. The participation level in terms of percentage of fixed remuneration to set STI target awards and the grant of performance rights which may vest over the three year performance period outlined above is determined annually as part of the remuneration review process. The assessment is based on benchmarked relevant market practice in similar companies with similar characteristics.

The remuneration structure ensures that if the Group under-performs on its earnings and / or return targets, no STI will be payable to executive KMP. Under-performance over the longer-term will also result in no vesting of performance rights.

Remuneration for all executives is reviewed at least annually. There is no guaranteed increase in any executive's employment contract.

Executive Director: Executive Deputy Chairman Arrangements

The overall remuneration structure remains similar to the prior year.

A fixed remuneration package is contracted comprising base salary of $371,597 per annum, superannuation as per the Superannuation Guarantee (Administration) Act 1992 and usage of a fully maintained company car.

The Executive Director does not participate in any Incentive Plan.

Non-Executive Director Arrangements

The Remuneration Policy is designed to ensure that remuneration outcomes enable the Company to attract, retain and motivate the high calibre of Non-Executive Directors required for it to meet its objectives.

A Non-Executive Director is not entitled to receive performance-based remuneration. They may be entitled to fees or other amounts, as the Board determines, where they perform duties outside the scope of the ordinary duties of a Director. They may also be reimbursed for out of pocket expenses incurred.

Securities Trading Policy

The Securities Trading Policy imposes trading restrictions on all employees, contractors and consultants who are considered to be in possession of market sensitive information. In addition are restrictions in the form of closed periods for KMP who are prohibited from trading in the Company's securities, except:

- in a six-week trading window period commencing 24 hours after the release of the final and half-yearly financial results
- after release of a disclosure document offering equity Securities in the Company; or
- dates as declared by the Board in the circumstances that the Board is of the view that the market can reasonably be expected to be fully informed on those dates.

KMP are prohibited from entering into contracts to hedge their exposure to any securities held in the Company.

## 4. Performance outcomes for FY 2020 including STI and LTI assessment

Short-term incentives (STI)

The STI component of remuneration currently consists of a cash bonus that is focused on a balanced scorecard approach, with financial and non-financial measures. Awards under the STI required that the target profit threshold set as part of the annual budgeting process was met. The STI achieved in relation to the FY 2020 period has been accrued in the FY 2020 results and will be paid after the end of the period.

In considering the award of STI remuneration the Board has been cognisant of the challenging economic environment, including the effect of COVID-19. Consistent with performance incentives as awarded across the broader business the Board has recognised Executive performance and delivery of the operating profit in a year of unprecedented challenges and the need to attract and retain an executive KMP team in a period of abnormal economic uncertainty and ongoing regulatory scrutiny.

The key performance indicators (KPIs) are selected based on what needs to be achieved over the performance period to achieve the business strategy over the longer term, varied to reflect individual executive roles and responsibilities. The average amount awarded to KMP in STI as a percentage of target STI for FY 2020 was 100%. In relation to the completed FY 2020 period the following KPIs and weightings applied to Participants:

<table>
<tr><th>Feature</th><th colspan="4">Description</th></tr>
<tr><td>Maximum opportunity</td><td colspan="4">Range from 21% to 100% depending on nature of role and service periods</td></tr>
<tr><td rowspan="6">Performance metrics</td><td colspan="4">KPIs are aligned to the strategic priorities of sustained growth in earnings and relative shareholder return</td></tr>
<tr><td>Metric</td><td>Weighting Impact</td><td>Target</td><td>Rationale for selection</td></tr>
<tr><td>Achievement of earnings</td><td>Mandatory threshold</td><td>Management of value measured using operating profit</td><td>Delivery of optimal financial performance</td></tr>
<tr><td>Risk and Compliance</td><td>Mandatory threshold</td><td>Regulatory compliance</td><td>Appropriate management of risk</td></tr>
<tr><td>Leadership and growth initiatives</td><td>Assessed on an individual basis</td><td>Board's assessment of leadership and strategy delivery</td><td>Long term strategy development for delivery of shareholder return</td></tr>
<tr><td>Project performance</td><td>Assessed on an individual basis</td><td>Achievement of milestones</td><td>Milestones to long term strategy development</td></tr>
<tr><td>Delivery of STI</td><td colspan="4">The STI is payable on release of the audited financial results and has been accrued in the FY 2020 results based on Board approval</td></tr>
<tr><td>Board discretion</td><td colspan="4">The Board reserves the right to amend, vary or revoke the terms of any incentive plan from time to time, at its sole and absolute discretion</td></tr>
</table>

Following the end of the Measurement Period (the financial year) the Board assessed the extent to which target levels of performance had been achieved in relation to each KPI and determined the total award payable.

| Executive | Target STI opportunity | % of fixed remuneration | STI outcome | % achieved | % forfeited |
|---|---|---|---|---|---|
| Mr S Budiselik | $525,000 | 100% | 100% | 100% | - |
| Mr B Edwards | $150,000 | 50% | 50% | 100% | - |
| Mr P Egan * | $62,500 | 50%* | 21% | 100% | - |

* Mr Egan's target STI opportunity was a pro rata portion of his full year entitlement based on his period of employment during FY 2020.

Long-term incentives (LTI)

At the Annual General Meeting held on 18 November 2015, shareholders approved the Cash Converters Rights Plan (Plan). The Plan was reapproved by shareholders at the Annual General Meeting on 29 November 2018.

The Plan provides eligible participants with an incentive plan that recognises ongoing contribution to the achievement by the Company of its strategic goals, and to provide a means of attracting and retaining skilled and experienced employees. Participation in the LTI Plan is at the discretion of the Board.

Subject to the achievement of performance conditions, participants may be entitled to be granted Performance Rights and / or Indeterminate Rights as approved by the Board.

LTI payments are delivered in Performance Rights which vest into Shares on the achievement of certain performance criteria or, Indeterminate Rights, where the Board, in their absolute and unfettered discretion, make a cash payment equivalent to the number of vested Indeterminate Rights multiplied by the then value of the Company's share price.

### 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 2019 | Granted as remuneration | Received on exercise of rights | Net other change | Balance at 30 June 2020 |
|---|---|---|---|---|---|
| | Number | Number | Number | Number | Number |
| **Directors** | | | | | |
| Mr S Grimshaw | - | - | - | - | - |
| Mr P Cumins | 7,575,694 | - | - | 600,000 | 8,175,694 |
| Mr K Dundo | - | - | - | - | - |
| Ms J Elliott (1) | - | - | - | - | - |
| Mr L Given | - | - | - | - | - |
| Mr R Hines (1) | 422,000 | - | - | - | 422,000 |
| **Other key management personnel** | | | | | |
| Mr S Budiselik | 116,875 | - | - | 131,500 | 248,375 |
| Mr L Crockett (1) | - | - | - | - | - |
| Mr B Edwards | 166,203 | - | - | 680,476 | 846,679 |
| Mr P Egan (1) | - | - | - | | |
| Mr B Cox (2) | - | - | - | - | - |
| Mr M Jenkins (2) | 3,375 | - | - | - | 3,375 |
| Mr B White (2) | - | - | - | - | - |
| | 8,284,147 | - | - | 1,411,976 | 9,696,123 |

(1) Opening balance at date of becoming KMP
(2) Closing balance at date of ceasing to be KMP

| | 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 becoming KMP
(2) Closing balance at date of ceasing to be KMP

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

| | Balance at 1 July 2019 Number | Granted as remuner-ation Number | Rights exercised Number | Rights lapsed / forfeited (3) Number | Balance at 30 June 2020 Number | Balance vested at 30 June 2020 Number |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Grimshaw | - | - | - | - | - | - |
| Mr P Cumins | - | - | - | - | - | - |
| Mr K Dundo | - | - | - | - | - | - |
| Ms J Elliott (1) | - | - | - | - | - | - |
| Mr L Given | - | - | - | - | - | - |
| Mr R Hines (1) | - | - | - | - | - | - |
| **Other key management personnel** | | | | | | |
| Mr S Budiselik | 1,513,760 | 5,379,098 | - | (387,096) | 6,505,762 | - |
| Mr L Crockett (1) | - | - | - | - | - | - |
| Mr B Edwards | 1,411,336 | 2,049,180 | - | (387,096) | 3,073,420 | - |
| Mr P Egan (1) | - | 1,639,344 | - | - | 1,639,344 | - |
| Mr B Cox (2) | 682,826 | - | - | (409,072) | 273,754 | - |
| Mr M Jenkins (2) | 1,206,488 | - | - | (1,206,488) | - | - |
| Mr B White (2) | 3,687,266 | - | - | (3,687,266) | - | - |
| | 8,501,676 | 9,067,622 | - | (6,077,018) | 11,492,280 | - |

(1) Opening balance at date of becoming KMP
(2) Closing balance at date of ceasing to be KMP
(3) Rights that were issued in FY 2018 relating to Mr Budiselik and Mr Edwards lapsed as a result of not meeting the required vesting measurement thresholds during the period. A total of 409,072 rights issued to Mr Cox and 3,687,266 rights issued to Mr White in FY 2019, and 1,206,488 rights issued to Mr Jenkins in FY 2018 and FY 2019 were forfeited during the period.

| | 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 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.

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 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 |
| Tranche 27 | 9 Jun 2020 | 0.17 | - | 30 Jun 2022 | 30 Jun 2022 |
| Tranche 28 | 9 Jun 2020 | 0.19 | - | 30 Jun 2022 | 30 Jun 2022 |

(i) The grant date fair value is calculated as at the grant date using a Monte Carlo pricing model for tranches 21, 23, 25 and 27 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 | | Value expensed in current year | Value to be expensed in future years |
|---|---|---|---|---|---|---|
| | | | Per right | Total | | |
| | | | $ | $ | $ | $ |
| Mr S Budiselik | 27 | 2,689,549 | 0.171 | 459,913 | 12,861 | 447,052 |
| | 28 | 2,689,549 | 0.195 | 524,462 | 14,665 | 509,797 |
| Mr B Edwards | 27 | 1,024,590 | 0.171 | 175,205 | 4,899 | 170,306 |
| | 28 | 1,024,590 | 0.195 | 199,795 | 5,587 | 194,208 |
| Mr P Egan | 27 | 819,672 | 0.171 | 140,164 | 3,919 | 136,245 |
| | 28 | 819,672 | 0.195 | 159,836 | 4,470 | 155,366 |
| Total | | 9,067,622 | | 1,659,375 | 46,401 | 1,612,974 |

**6. Non-Executive Director fee policy rates for FY 2020 and FY 2021 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 2021.

The following table outlines the Non-Executive Director Remuneration policy rates that were applicable as at the end of FY 2020.

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 2020 (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 2020 and 2019, 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 bonus | Non-monetary benefits | Termin-ation benefits | Super-annuation | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **2020** | | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Mr S Grimshaw | 170,000 | - | - | - | - | - | - | 170,000 |
| Mr K Dundo | 109,134 | - | - | - | - | - | - | 109,134 |
| Ms J Elliott (1) | 18,732 | - | - | - | 1,779 | - | - | 20,511 |
| Mr L Given | 95,000 | - | - | - | - | - | - | 95,000 |
| Mr R Hines (1) | 18,732 | - | - | - | 1,779 | - | - | 20,511 |
| **Executive director** | | | | | | | | |
| Mr P Cumins | 378,027 | - | 54,905 | - | 24,691 | 7,307 | - | 464,930 |
| **Other executives** | | | | | | | | |
| Mr S Budiselik (2) | 457,006 | 650,000 | 11,910 | - | 25,019 | 1,642 | (22,132) | 1,123,445 |
| Mr L Crockett (3) | 31,778 | - | 992 | - | 2,771 | - | - | 35,541 |
| Mr B Edwards | 295,922 | 340,000 | 2,457 | - | 21,003 | 959 | (40,310) | 620,031 |
| Mr P Egan (4) | 134,724 | 142,500 | 824 | - | 10,001 | - | 21,466 | 309,515 |
| Mr B Cox (5) | 56,250 | - | 1,985 | - | 4,901 | - | (4,258) | 58,878 |
| Mr M Jenkins (6) | 44,877 | - | 1,985 | 182,500 | 5,251 | (33,927) | (95,208) | 105,478 |
| Mr B White (7) | 488,589 | - | 788,711 | 120,000 | 15,752 | - | (53,931) | 1,359,121 |
| Total | 2,298,771 | 1,132,500 | 863,769 | 302,500 | 112,947 | (24,019) | (194,373) | 4,492,095 |
| **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 (8) | 25,114 | - | - | - | 2,386 | - | - | 27,500 |
| Ms A Waters (9) | 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 (10) | 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 (11) | 91,004 | - | 1,924 | 575,154 | 5,868 | - | (79,031) | 594,919 |
| Mr N Carbone (12) | 102,286 | - | 3,849 | 100,000 | 10,266 | - | (16,878) | 199,523 |
| Ms M Cutten (13) | 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 |

(1) Appointed 14 April 2020
(2) Appointed CEO 26 February 2020
(3) Appointed 2 June 2020
(4) Appointed 3 February 2020
(5) Resigned 13 September 2019
(6) Resigned 2 September 2019
(7) Resigned 26 February 2020
(8) Resigned 30 September 2018
(9) Resigned 14 December 2018
(10) Appointed 18 March 2019
(11) Resigned 27 August 2018
(12) Resigned 9 November 2018
(13) Resigned 25 January 2019

The cash bonus values reported in this table include the STIs awarded for the performance period described in section 4 above, which will be paid in the financial year following the year to which they relate (i.e. the value shown for 2020 is the value earned and accrued for in FY 2020 and will be paid during FY 2021). In November 2019 retention bonuses of $125,000 to Mr Budiselik and $190,000 to Mr Edwards were awarded and paid in addition to these STIs, and contracted compensation was accrued for Mr Egan in relation to incentives foregone with his previous employer, which will be paid in FY 2021.

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.

For further detail on non-monetary benefits received by Mr White, refer to section 10 below.

The following table shows the relative proportions of remuneration for the year that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense:

| **Name** | **Year** | **Fixed remuneration** | **At risk remuneration** | |
|---|---|---|---|---|
| | | | **STI** | **LTI** |
| Mr S Budiselik | 2020 | 41% | 54% | 4% |
| Mr L Crockett * | 2020 | 100% | - | - |
| Mr B Edwards | 2020 | 47% | 49% | 4% |
| Mr P Egan | 2020 | 49% | 48% | 3% |

* Mr Crockett commenced with the Company on 2 June 2020 and accordingly was ineligible for at risk remuneration in FY 2020.

## 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. However, 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 S Budiselik | Chief Executive Officer | 12 months | 12 months |
| Mr L Crockett | Chief Financial Officer | 3 months | 3 months |
| Mr B Edwards | General Counsel and Company Secretary | 6 months | 6 months |
| Mr P Egan | Chief Risk Officer | 6 months | 6 months |

Mr Budiselik commenced as Chief Executive Officer on 26 February 2020 on a permanent basis with the termination notice periods as outlined above. A base salary of $525,000 plus minimum statutory superannuation contribution is payable. Mr Budiselik participates in the incentive programmes outlined at the discretion of the Board with a target STI set as 100% of base salary and LTI set as 75% of base salary.

For all participants, termination of employment will trigger a forfeiture of all unearned incentive entitlements except under certain limited circumstances defined in the Plan. Amounts that are not forfeited will be tested and potentially paid based on actual performance relative to the performance goals, following the end of the Measurement Period. Under the Plan rules the Board retains discretion to trigger or accelerate payment or vesting of incentives, provided that the limitations on termination benefits as outlined in the Corporations Act are not breached (except in the case that shareholder approval has been obtained to do so).

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. Loan to KMP**

Mr Brendan White, former Chief Executive Officer, received unsecured loans from the Company during the year ended 30 June 2019 totalling $441,216 to assist with the transfer of financial arrangements necessitated from his departure from Bank of Queensland. The loan accrued interest at 5.65% per annum and the outstanding balance at the date of his resignation on 26 February 2020 of $415,045 was forgiven as part of his agreed exit arrangements. As part of his exit arrangements, Mr White agreed that he would not receive and would forego, any further payments or share allocations pursuant to the Company Incentive Schemes.
Further details are as follows:

| | $ |
|---|---|
| Amounts loaned | 441,216 |
| Interest accrued at 5.65% per annum | 25,829 |
| Repayments received | (52,000) |
| Balance forgiven – 26 February 2020 | 415,045 |
| | |
| Balance of loan at 1 July 2019 | 451,065 |
| Highest amount of indebtedness during the reporting period (26 September 2019) | 457,261 |
| Balance of loan at 30 June 2020 | - |

Included in the remuneration table in section 7 above as a non-monetary benefit is the amount of the loan forgiven as outlined above and related fringe benefits tax of $373,666.

**10. Other remuneration-related matters**

The Company appointed Michael Murphy in the role of Chief Financial Officer, commencing on 10 February 2020, and announced on 16 March 2020 that Mr Murphy's contract would cease at the end of a 6 month contractual notice period. From that date Mr Murphy worked only on discrete special purpose projects, and his service with the Company ceased on 18 May 2020. During the period of his service he was paid $223,441 in salary, including payment in lieu of notice to September 2020, and superannuation of $10,238. The Company does not consider that Mr Murphy met the Key Management Personnel definition during this period.

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 Jenkins – payment in lieu of notice under contract - $150,000, ex gratia payment - $32,500
Mr B White – payment in lieu of notice under contract - $120,000

Entitlements under the STIP for the FY 2020 year were forfeited upon termination. Performance rights under the LTIP outstanding to Mr Jenkins and Mr White lapsed, and a portion of those outstanding to Mr Cox relating to his uncompleted vesting period lapsed.

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

Peter Cumins
Director

Perth, Western Australia
27 August 2020

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 2019-20
- 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 2020**

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Franchise fee revenue | | 13,215 | 15,400 |
| Financial services interest revenue | 2.1 | 174,362 | 186,462 |
| Sale of goods | 2.1 | 88,238 | 75,807 |
| Other revenues | 2.1 | 3,193 | 3,896 |
| **Total revenue** | | 279,008 | 281,565 |
| Financial services cost of sales | 2.2 | (60,116) | (78,104) |
| Cost of goods sold | | (48,759) | (45,992) |
| Other cost of sales | | (2,287) | (2,146) |
| **Total cost of sales** | | (111,162) | (126,242) |
| **Gross profit** | | 167,846 | 155,323 |
| Employee expenses | 2.2 | (72,246) | (71,266) |
| Administrative expenses | 2.2 | (8,647) | (9,033) |
| Advertising expenses | | (6,780) | (7,735) |
| Occupancy expenses | 2.2 | (4,485) | (15,795) |
| Class Action settlement expense | 2.2 | (42,500) | (16,400) |
| Depreciation and amortisation expense | 2.2 | (19,861) | (13,222) |
| Other expenses | 2.2 | (15,058) | (15,253) |
| Finance costs | 2.2 | (12,607) | (10,598) |
| Share of net profit of equity accounted investments | 5.1 | 1,038 | 1,613 |
| **Loss before income tax** | | (13,300) | (2,366) |
| Income tax benefit | 2.3 | 2,809 | 674 |
| **Loss for the year** | | (10,491) | (1,692) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 376 | 524 |
| Other comprehensive income for the year | | 376 | 524 |
| **Total comprehensive loss for the year** | | (10,115) | (1,168) |
| **(Loss) per share** | | | |
| Basic (cents per share) | 2.4 | (1.70) | (0.27) |
| Diluted (cents per share) | 2.4 | (1.70) | (0.27) |

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 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4.1 | 106,548 | 81,101 |
| Trade and other receivables | 3.1 | 6,700 | 7,794 |
| Loan receivables | 3.2 | 93,687 | 128,374 |
| Inventories | 3.3 | 15,221 | 20,370 |
| Prepayments | 3.4 | 4,959 | 7,766 |
| Current tax receivable | | 1,425 | 1,897 |
| **Total current assets** | | 228,540 | 247,302 |
| | | | |
| **Non-current assets** | | | |
| Trade and other receivables | 3.1 | 4,930 | 6,293 |
| Loan receivables | 3.2 | 35,929 | 46,226 |
| Plant and equipment | 3.5 | 4,628 | 6,173 |
| Right-of-use assets | 3.6 | 50,523 | - |
| Deferred tax assets | 2.3 | 18,181 | 14,820 |
| Goodwill | 3.7 | 106,967 | 106,967 |
| Other intangible assets | 3.8 | 21,371 | 26,924 |
| Prepayments | | 2,129 | 3,083 |
| Investments in associates | 5.1 | 6,636 | 6,452 |
| **Total non-current assets** | | 251,294 | 216,938 |
| | | | |
| **Total assets** | | 479,834 | 464,240 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 3.9 | 23,316 | 15,296 |
| Lease liabilities | 4.2 | 6,922 | - |
| Borrowings | 4.3 | 60,618 | 87,826 |
| Provisions | 3.10 | 8,055 | 7,044 |
| **Total current liabilities** | | 98,911 | 110,166 |
| | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | 4.2 | 46,121 | - |
| Borrowings | 4.3 | 27,174 | 35,510 |
| Provisions | 3.10 | 1,257 | 1,712 |
| **Total non-current liabilities** | | 74,552 | 37,222 |
| | | | |
| **Total liabilities** | | 173,463 | 147,388 |
| | | | |
| **Net assets** | | **306,371** | **316,852** |
| | | | |
| **Equity** | | | |
| Issued capital | 4.5 | 248,714 | 248,714 |
| Reserves | | 7,068 | 7,238 |
| Retained earnings | | 50,589 | 60,900 |
| **Total equity** | | **306,371** | **316,852** |

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 2020**

| | 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 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** |
| Loss for the year | | - | - | - | (10,491) | (10,491) |
| Exchange differences arising on translation of foreign operations | | - | 376 | - | - | 376 |
| Total comprehensive loss for the year | | - | 376 | - | (10,491) | (10,115) |
| Share-based payments | | - | - | (366) | - | (366) |
| Transfer reserve balance to retained earnings | | - | - | (180) | 180 | - |
| **Balance at 30 June 2020** | | **248,714** | **6,730** | **338** | **50,589** | **306,371** |

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 2020**

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 199,209 | 190,041 |
| Payments to suppliers and employees | | (165,960) | (188,395) |
| Payment for Class Action settlement | 2.2 | (32,500) | (16,400) |
| Interest received | | 539 | 1,169 |
| Interest received from personal loans | | 67,811 | 73,973 |
| Net decrease / (increase) in personal loans advanced | | 13,757 | (73,052) |
| Interest and costs of finance paid | | (12,597) | (13,257) |
| Income tax refunded / (paid) | | (148) | (5,867) |
| Net cash flows provided by / (used in) operating activities | 2.7 | 70,111 | (31,788) |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of intangible assets | 3.8 | (2,961) | (6,634) |
| Proceeds on sale of plant and equipment | | 409 | 164 |
| Purchase of plant and equipment | | (1,212) | (739) |
| Instalment credit loans repaid by franchisees | | 1,329 | 14,251 |
| Return on equity investment | 5.1 | 659 | 680 |
| Net cash flows provided by / (used in) investing activities | | (1,776) | 7,722 |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 134,500 | 202,500 |
| Repayment of borrowings | | (169,750) | (237,500) |
| Payment of borrowing costs | | (1,500) | - |
| Repayment of lease liabilities | | (6,810) | - |
| Net cash flows used in financing activities | | (43,560) | (35,000) |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | 24,775 | (59,066) |
| **Cash and cash equivalents at the beginning of the year** | | 81,101 | 139,991 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 672 | 176 |
| **Cash and cash equivalents at the end of the year** | 4.1 | **106,548** | **81,101** |

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 2020 was authorised for issue in accordance with a resolution of directors dated 27 August 2020.

### (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').

The financial statements have been prepared on a going concern basis. To assess the appropriateness of the Group's going concern assumption including as a consequence of COVID-19, management have:

- Prepared cash flow forecasts that extend to 30 September 2021 that demonstrate the Group will have access to sufficient liquid resources to meet forecast operational expenditure, working capital and loan originations over that period:
  - The Group has access to unrestricted cash of $95.439 million as at 30 June 2020;
  - The Group has $60.750 million in available undrawn securitisation facilities at 30 June 2020;
- Evaluated the net asset position of the group, with the current and non-current classification of loans and receivables and borrowings appropriately disclosed;
- Re-evaluated material areas of judgement and uncertainty;
- Re-evaluated the Group's strategy and the resources required to successfully execute it; and
- Assessed current cash resources and funding sources available to the Group consistent with the expected future cash requirements.

### (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 16 *Leases*.

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

***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 2020 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.

*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 117, 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 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.

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.

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

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 $61.716 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).

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

| | **30 June 2020 $'000** | **1 July 2019 $'000** |
|---|---|---|
| *Right-of-use assets* | | |
| Buildings | 50,523 | 61,904 |
| | | |
| *Lease liabilities* | | |
| Current | 6,922 | 5,968 |
| Non-current | 46,121 | 55,748 |
| | 53,043 | 61,716 |
| | | |
| *Deferred tax* | | |
| Deferred tax asset on lease liabilities | 15,563 | 17,851 |
| Deferred tax liability on right-of-use assets | (15,042) | (18,085) |
| | 521 | (234) |

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

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

| | 2020 $'000 |
|---|---|
| Depreciation expense on right-of-use assets (buildings) | 9,153 |
| Interest expense (included in finance costs) | 4,223 |
| | 13,376 |

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) | (4,212) |
| Repayment of lease liabilities (financing expenses) | (6,810) |
| | (11,022) |

Lease deferrals and reductions received by the Group associated with COVID-19 were immaterial during the current year.

**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.

**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.

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

**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
- 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 year ended 30 June 2020.

**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.

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

**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 $1.907 million.

*IFRIC 23 'Uncertainty over Income Tax Treatments'*

The Group adopted IFRIC 23 for the first time during the year ended 30 June 2020. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments, under AASB 12 *Income Taxes*. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a Group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - if yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings
    - if no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

There were no adjustments to the amounts recognised in the financial report as a result of adopting IFRIC 23.

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

**(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 3.7 and 3.8
- Incremental borrowing rate used in calculating lease asset and liability values – see note 1(b)
- Impairment of equity investment in associate – see note 5.1
- Useful lives of other intangible assets – see note 3.8
- Impairment of financial assets (including loan receivables) – see note 3.2
- Impairment for inventory obsolescence – see note 3.3

**(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.

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

**(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.

**(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**

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| *Financial services interest revenue* | | |
| Personal loan interest and establishment fees | 112,292 | 120,853 |
| Pawnbroking fees | 28,767 | 30,490 |
| Cash advance fee income | 12,500 | 17,742 |
| Vehicle loan interest and establishment fees | 20,488 | 16,679 |
| Other financial services revenue | 315 | 698 |
| | 174,362 | 186,462 |

## 2.1 Revenue (continued)

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| *Sale of goods* | | | |
| Retail sales | | 88,034 | 75,538 |
| Vehicle trade sales | | 204 | 269 |
| | | 88,238 | 75,807 |
| | | | |
| *Other revenue* | | | |
| Bank interest | | 329 | 929 |
| Other vehicle revenue | | 231 | 1,005 |
| Other revenue | | 2,633 | 1,962 |
| | | 3,193 | 3,896 |

*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 fees

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.

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

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| *Financial services cost of sales* | | | |
| Net bad and doubtful debt expense | 3.2 | 41,493 | 60,409 |
| Commissions | | 13,045 | 13,644 |
| Other financial services cost of sales | | 5,578 | 4,051 |
| | | 60,116 | 78,104 |
| | | | |
| *Employee expenses* | | | |
| Employee benefits | | 67,525 | 65,990 |
| Share-based payments | | (366) | 281 |
| Superannuation expense | | 5,087 | 4,995 |
| | | 72,246 | 71,266 |

## 2.2 Expenses (continued)

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| *Administrative expenses* | | |
| General administrative expenses | 3,291 | 2,883 |
| Communications expenses | 955 | 1,478 |
| IT expenses | 3,620 | 3,723 |
| Travel costs | 781 | 949 |
| | 8,647 | 9,033 |
| *Occupancy expenses* | | |
| Rent | 260 | 11,221 |
| Outgoings | 2,144 | 1,975 |
| Other | 2,081 | 2,599 |
| | 4,485 | 15,795 |
| *Depreciation and amortisation expense* | | |
| Depreciation | 2,118 | 2,903 |
| Depreciation of right-of-use assets | 9,154 | - |
| Amortisation of other intangible assets | 5,967 | 6,242 |
| Loss on write down of assets | 2,622 | 4,077 |
| | 19,861 | 13,222 |
| *Other expenses* | | |
| Legal fees | 1,171 | 3,742 |
| Professional and registry costs | 8,159 | 6,772 |
| Auditing and accounting services | 507 | 565 |
| Bank charges | 986 | 831 |
| Other expenses from ordinary activities | 4,235 | 3,343 |
| | 15,058 | 15,253 |
| *Finance costs* | | |
| Interest | 8,384 | 10,598 |
| Interest expense on lease liabilities | 4,223 | - |
| | 12,607 | 10,598 |

*Class Action settlement expense*

On 21 October 2019, the Company announced that it had reached a settlement in relation to the Lynch Class Action, under the terms of which the Company would pay $42.500 million in two tranches into a fund for distribution to members of the class. The first tranche of $32.500 million was paid in November 2019, and the second tranche of $10.000 million is to be paid on or before 30 September 2020.

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*

<u>Employee benefits expense</u>

The Group's accounting policy for liabilities associated with employee benefits is set out in note 3.10. The policy relating to share-based payments is set out in note 6.5.

## 2.2 Expenses (continued)

Impairment

Impairment expenses are recognised to the extent that the carrying amount of assets exceeds their recoverable amount. Refer to note 3.7 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:

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| *Current income tax expense* | | |
| Current year | (2,874) | 3,622 |
| Adjustment for prior years | (341) | (143) |
| *Deferred income tax expense* | | |
| Temporary differences | (136) | (4,177) |
| Adjustment for prior years | 542 | 24 |
| Income tax (benefit) / expense reported in income statement | (2,809) | (674) |
| **Tax reconciliation** | | |
| Profit / (loss) before tax from continuing operations | (13,300) | (2,366) |
| Income tax at the statutory rate of 30% (2019: 30%) | (3,990) | (710) |
| Adjustments relating to prior years | 201 | (119) |
| Income tax rate differential | (21) | (19) |
| Non-deductible items | 980 | 66 |
| Tax effect of share-based payment expense | (110) | 84 |
| Recognition of previously impaired tax losses | 131 | 24 |
| Income tax (benefit) / expense on profit before tax | (2,809) | (674) |

## 2.3 Taxation (continued)

### (b) Deferred tax

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

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| *Deferred tax assets* | | |
| Allowance for doubtful debts | 9,128 | 11,553 |
| Accruals | 686 | 612 |
| Provision for employee entitlements | 2,322 | 2,137 |
| Other provisions | 415 | 108 |
| Leases | 688 | - |
| Other | 178 | 270 |
| Carry forward losses | 6,566 | 2,799 |
| | 19,983 | 17,479 |
| *Deferred tax liabilities* | | |
| Fixed assets | (687) | (1,440) |
| Intangible assets | (1,097) | (1,181) |
| Other | (18) | (38) |
| | (1,802) | (2,659) |
| Net deferred tax assets | 18,181 | 14,820 |
| *Reconciliation of net deferred tax assets* | | |
| Opening balance at beginning of period | 14,820 | 8,614 |
| Tax expense during period recognised in profit or loss | 136 | 4,177 |
| Tax benefit during period recognised in equity | - | 2,001 |
| Prior year adjustment | (542) | (24) |
| Transfer current year tax benefit | 3,792 | - |
| Other | (25) | 52 |
| Closing balance at end of period | 18,181 | 14,820 |

### (c) Unrecognised deferred tax balances

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

| | | |
|---|---|---|
| Tax losses - revenue | 4,312 | 4,254 |

### (d) Carry forward tax losses

Carry forward losses of $2.758 million (2019: $2.799 million) have been recognised in relation to the Group's UK operations, which were not profitable in the current year and have had a recent history of losses. Carry forward losses of $3.945 million (2019: Nil) have been recognised in relation to losses in the Group's Australian operations during the current year. Refer to note 2.3(g) for further information supporting the recognition of these losses.

## 2.3 Taxation (continued)

### (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.

### (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.

## 2.3 Taxation (continued)

*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 $18.181 million (2019: $14.820 million) has been recognised in the consolidated statement of financial position. This includes $2.758 million (2019: $2.799 million) of carried forward tax losses in relation to the Group's UK operations, which have a recent history of losses. The UK tax losses have an indefinite availability period subject to satisfaction of the continuity of ownership or same 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 2020.

Continuing operations in Australia made a loss during the current year however the Australian tax group is expected to be profitable in future years, 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***

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| *Basic and diluted earnings per share* | | |
| (Loss) / profit attributable to shareholders of the Company used in calculating earnings per share | (10,491) | (1,692) |

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

| | Number | Number |
|---|---|---|
| Weighted average number of shares - basic | 616,437,946 | 616,437,946 |
| Dilutive effect of performance rights | 8,970,232 | 12,210,611 |
| Weighted average number of shares - diluted | 625,408,178 | 628,648,557 |

The number of potential ordinary shares not included in the above calculation is 14,110,146 (2019: 10,973,771), equating to a weighted average dilutive effect of 8,970,232 (2019: 12,210,611).

## 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.

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.

| | Personal finance | Vehicle financing | Store operations | Franchise operations | Corporate head office (iv) | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| ***Year ended 30 June 2020*** | | | | | | |
| Interest revenue (i) | 117,703 | 20,526 | 46,038 | 972 | - | 185,239 |
| Other revenue | - | 435 | 87,981 | 17,258 | - | 105,674 |
| Gross revenue | 117,703 | 20,961 | 134,019 | 18,230 | - | 290,913 |
| Less inter-company sales | (2,308) | - | (8,570) | (1,356) | - | (12,234) |
| Segment revenue | 115,395 | 20,961 | 125,449 | 16,874 | - | 278,679 |
| External interest revenue (ii) | - | - | - | - | 329 | 329 |
| Total revenue | 115,395 | 20,961 | 125,449 | 16,874 | 329 | 279,008 |

## 2.5 Segment information (continued)

| | Personal finance | Vehicle financing | Store operations | Franchise operations | Corporate head office (iv) | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| ***Year ended 30 June 2020*** | | | | | | |
| EBITDA (iii) | 51,084 | 2,876 | 23,017 | 10,943 | (68,752) | 19,168 |
| Less inter-company eliminations | (1,913) | 6 | 2,732 | (825) | - | - |
| Segment EBITDA | 49,171 | 2,882 | 25,749 | 10,118 | (68,752) | 19,168 |
| Depreciation and amortisation | (1,309) | (152) | (9,641) | (1,790) | (6,969) | (19,861) |
| EBIT | 47,862 | 2,730 | 16,108 | 8,328 | (75,721) | (693) |
| Interest expense | (5,864) | (2,689) | (3,814) | (51) | (189) | (12,607) |
| Profit / (loss) before tax | 41,998 | 41 | 12,294 | 8,277 | (75,910) | (13,300) |
| Income tax benefit | | | | | | 2,809 |
| Loss for the year | | | | | | (10,491) |
| ***Year ended 30 June 2019*** | | | | | | |
| Interest revenue (i) | 128,241 | 16,886 | 52,677 | 1,771 | - | 199,575 |
| Other revenue | 52 | 1,274 | 75,496 | 18,895 | - | 95,717 |
| Gross revenue | 128,293 | 18,160 | 128,173 | 20,666 | - | 295,292 |
| Less inter-company sales | (3,157) | - | (9,957) | (1,542) | - | (14,656) |
| Segment revenue | 125,136 | 18,160 | 118,216 | 19,124 | - | 280,636 |
| External interest revenue (ii) | 10 | - | - | - | 919 | 929 |
| Total revenue | 125,146 | 18,160 | 118,216 | 19,124 | 919 | 281,565 |
| EBITDA (iii) | 41,291 | 921 | 10,235 | 12,322 | (43,315) | 21,454 |
| Less inter-company eliminations | (2,767) | 7 | 3,662 | (902) | - | - |
| Segment EBITDA | 38,524 | 928 | 13,897 | 11,420 | (43,315) | 21,454 |
| Depreciation and amortisation | (166) | (322) | (2,762) | (1,532) | (8,440) | (13,222) |
| EBIT | 38,358 | 606 | 11,135 | 9,888 | (51,755) | 8,232 |
| Interest expense | (7,213) | (2,590) | - | - | (795) | (10,598) |
| Profit / (loss) before tax | 31,145 | (1,984) | 11,135 | 9,888 | (52,550) | (2,366) |
| Income tax expense | | | | | | 674 |
| Loss for the year | | | | | | (1,692) |

(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
(iv) Class Action settlement expense of $42.500 million (2019: $16.400 million) has been included in the Corporate head office segment

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| ***Group assets by reportable segment*** | | |
| Personal finance | 196,915 | 213,365 |
| Vehicle financing | 53,100 | 63,256 |
| Store operations | 96,693 | 75,282 |
| Franchise operations | 15,609 | 33,709 |
| Total of all segments | 362,317 | 385,612 |
| Unallocated assets | 117,517 | 78,628 |
| Consolidated total assets | 479,834 | 464,240 |

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

## 2.5 Segment information (continued)

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| ***Group liabilities by reportable segment*** | | |
| Personal finance | 71,938 | 89,144 |
| Vehicle financing | 32,457 | 39,475 |
| Store operations | 57,014 | 8,008 |
| Franchise operations | 5,618 | 6,075 |
| Total of all segments | 167,027 | 142,702 |
| Unallocated liabilities | 6,436 | 4,686 |
| Consolidated total liabilities | 173,463 | 147,388 |

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

***Other segment information***

| | Depreciation, amortisation and impairment | | Additions to non-current assets | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Personal finance | 183 | 166 | 203 | 2,098 |
| Vehicle financing | 98 | 258 | 2,231 | 1,471 |
| Store operations | 1,919 | 2,597 | 815 | 782 |
| Franchise operations | 1,359 | 1,532 | 314 | 1,452 |
| Total of all segments | 3,559 | 4,553 | 3,563 | 5,803 |
| Unallocated | 4,526 | 5,795 | 610 | 1,449 |
| Total | 8,085 | 10,348 | 4,173 | 7,252 |

***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 | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Australia | 268,998 | 269,246 | 97,727 | 138,167 |
| United Kingdom | 9,259 | 11,744 | 35,239 | 2,037 |
| Rest of world | 751 | 575 | - | - |
| | 279,008 | 281,565 | 132,966 | 140,204 |

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **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 2019.

On 27 August 2020 the Company resolved that there would be no final dividend in respect of the financial year ended 30 June 2020.

The Company has Australian franking credits available of $68.379 million on a tax paid basis (2019: $69.339 million).

### 2.7 Notes to cash flow statement

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit / (loss) after tax | (10,491) | (1,692) |
| Non-cash adjustment to reconcile profit after tax to net cash flows: | | |
| Amortisation | 5,967 | 7,445 |
| Depreciation | 11,281 | 2,903 |
| Share-based payments | (366) | 281 |
| Loss on disposal of non-current assets | 2,623 | 2,873 |
| Share of net (profit) / loss of equity accounted investment | (957) | (1,632) |
| Changes in assets and liabilities: | | |
| Trade and loan receivables | 46,632 | (29,324) |
| Inventories | 5,125 | 301 |
| Other assets | 2,907 | (2,520) |
| Trade and other payables | 9,493 | (3,684) |
| Provisions | 811 | (219) |
| Income tax payables | (2,914) | (6,520) |
| Net cash provided by operating activities | 70,111 | (31,788) |

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

| | | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| ***Current*** | | | |
| Trade receivables | (i) | 1,862 | 1,151 |
| Allowance for impairment losses | | (154) | (26) |
| Total trade receivables (net) | | 1,708 | 1,125 |
| Finance lease receivables | (ii) | - | 128 |
| Vendor finance loans | (iii) | 1,797 | 1,817 |
| Other receivables | (v) | 3,195 | 4,724 |
| Total trade receivables | | 6,700 | 7,794 |
| | | | |
| ***Non-current*** | | | |
| Vendor finance loans | (iii) | 2,060 | 3,358 |
| Loan to associate | (iv) | 2,848 | 2,913 |
| Other receivables | (v) | 22 | 22 |
| Total trade and other receivables | | 4,930 | 6,293 |

(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 may be charged 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 was 4 years. The Group ceased entering into such finance lease arrangements from March 2016 and as at 30 June 2020 the Group no longer holds any lease receivables.

(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 2020 (2019: 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 (2019: nil).

### 3.1 Trade and other receivables (continued)

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 0 to 30 days | 509 | 688 |
| 31 to 60 days past due not impaired | 235 | 109 |
| 61 to 90 days past due not impaired | 343 | 32 |
| 90 + days past due not impaired | 621 | 296 |
| Considered impaired | 154 | 26 |
| Balance at end of year | 1,862 | 1,151 |

*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.

***Allowance for impairment losses***

As at 30 June 2020, trade receivables and instalment credit loans of $154 thousand (2019: $26 thousand) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | 26 | 136 |
| Impairment losses recognised on receivables | 131 | (109) |
| Foreign currency exchange differences | (3) | (1) |
| Balance at end of year | 154 | 26 |

### 3.2 Loan receivables

| | | 2020 | 2019 |
|---|---|---|---|
| ***Current*** | | | |
| Personal short-term loans (unsecured) | (i) | 97,245 | 142,308 |
| Allowance for impairment losses | | (17,922) | (27,143) |
| Total personal short-term loans (net) | | 79,323 | 115,165 |
| Vehicle finance loans (secured) | (ii) | 18,908 | 15,451 |
| Allowance for impairment losses | | (4,544) | (2,242) |
| Total vehicle finance loans (net) | | 14,364 | 13,209 |
| Total loan receivables | | 93,687 | 128,374 |

### 3.2 Loan receivables (continued)

| | | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| ***Non-current*** | | | |
| Personal short-term loans (unsecured) | (i) | 4,444 | 5,998 |
| Allowance for impairment losses | | (817) | (992) |
| Total personal loans (net) | | 3,627 | 5,006 |
| Vehicle finance loans (secured) | (ii) | 39,398 | 47,429 |
| Allowance for impairment losses | | (7,096) | (6,209) |
| Total vehicle finance loans (net) | | 32,302 | 41,220 |
| Total loan receivables | | 35,929 | 46,226 |

(i) The credit period provided in relation to personal short-term unsecured loans varies from 30 days to 24 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 3.2 years (2019: 3.5 years) and the average interest rate is 24.9% (2019: 25.0%).

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

| | | |
|---|---|---|
| 0 to 30 days | 75,828 | 107,730 |
| 31 to 60 days past due not impaired | 2,421 | 6,899 |
| 61 to 90 days past due not impaired | 2,315 | 3,363 |
| 90 + days past due not impaired | 2,386 | 2,179 |
| Considered impaired | 18,739 | 28,135 |
| Balance at end of year | 101,689 | 148,306 |

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

| | | |
|---|---|---|
| 0 to 30 days | 32,632 | 41,231 |
| 31 to 60 days past due not impaired | 4,525 | 3,872 |
| 61 to 90 days past due not impaired | 2,491 | 2,543 |
| 90 + days past due not impaired | 7,018 | 6,783 |
| Considered impaired | 11,640 | 8,451 |
| Balance at end of year | 58,306 | 62,880 |

***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.

### 3.2 Loan receivables (continued)

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

| **Personal 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 2019 | 9,756 | 10,088 | 8,291 | 28,135 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (714) | 714 | - | - |
| Transfers from Stage 1 to Stage 3 | (730) | - | 730 | - |
| Transfers from Stage 2 to Stage 1 | 76 | (76) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (801) | 801 | - |
| Transfers from Stage 3 to Stage 1 | 39 | - | (39) | - |
| Transfers from Stage 3 to Stage 2 | - | 455 | (455) | - |
| New financial assets originated | 3,391 | 4,109 | 6,596 | 14,096 |
| Changes in PDs/LGDs/EADs | (1,100) | (2,396) | (1,233) | (4,729) |
| Changes to model assumptions and methodologies | 261 | 1,593 | 2,150 | 4,004 |
| Written off and settled loans | (7,418) | (8,642) | (6,707) | (22,767) |
| *Total net change during the period* | (6,195) | (5,044) | 1,843 | (9,396) |
| Balance at 30 June 2020 | 3,561 | 5,044 | 10,134 | 18,739 |

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 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 2019 | 105,032 | 26,451 | 16,823 | 148,306 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (5,813) | 5,813 | - | - |
| Transfers from Stage 1 to Stage 3 | (5,075) | - | 5,075 | - |
| Transfers from Stage 2 to Stage 1 | 305 | (305) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (2,303) | 2,303 | - |
| Transfers from Stage 3 to Stage 1 | 118 | - | (118) | - |
| Transfers from Stage 3 to Stage 2 | - | 1,314 | (1,314) | - |
| New financial assets originated | 62,135 | 15,893 | 14,219 | 92,247 |
| Changes in outstanding balance | (5,500) | (5,560) | (2,260) | (13,320) |
| Written off and settled loans | (89,638) | (22,577) | (13,329) | (125,544) |
| *Total net change during the period* | (43,468) | (7,725) | 4,576 | (46,617) |
| Balance at 30 June 2020 | 61,564 | 18,726 | 21,399 | 101,689 |

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.

### 3.2 Loan receivables (continued)

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 2019 | 1,998 | 2,537 | 3,916 | 8,451 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (286) | 286 | - | - |
| Transfers from Stage 1 to Stage 3 | (185) | - | 185 | - |
| Transfers from Stage 2 to Stage 1 | 637 | (637) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (611) | 611 | - |
| Transfers from Stage 3 to Stage 1 | 329 | - | (329) | - |
| Transfers from Stage 3 to Stage 2 | - | 160 | (160) | - |
| New financial assets originated | 660 | 1,033 | 924 | 2,617 |
| Changes in PDs/LGDs/EADs | (3,519) | 499 | 379 | (2,641) |
| Changes to model assumptions and methodologies | 2,442 | 1,475 | 2,483 | 6,400 |
| Written off and settled loans | (319) | (736) | (2,132) | (3,187) |
| *Total net change during the period* | (241) | 1,469 | 1,961 | 3,189 |
| Balance at 30 June 2020 | 1,757 | 4,006 | 5,877 | 11,640 |

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 2019 | 47,566 | 7,451 | 7,863 | 62,880 |
| *Movements with P&L impact* | | | | |
| Transfers: | | | | |
| Transfers from Stage 1 to Stage 2 | (6,354) | 6,354 | - | - |
| Transfers from Stage 1 to Stage 3 | (3,280) | - | 3,280 | - |
| Transfers from Stage 2 to Stage 1 | 2,036 | (2,036) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (1,824) | 1,824 | - |
| Transfers from Stage 3 to Stage 1 | 705 | - | (705) | - |
| Transfers from Stage 3 to Stage 2 | - | 351 | (351) | - |
| New financial assets originated | 15,589 | 2,445 | 1,169 | 19,203 |
| Changes in outstanding balance | (7,627) | (1,200) | (350) | (9,177) |
| Written off and settled loans | (7,743) | (2,311) | (4,546) | (14,600) |
| *Total net change during the period* | (6,674) | 1,779 | 321 | (4,574) |
| Balance at 30 June 2020 | 40,892 | 9,230 | 8,184 | 58,306 |

### 3.2 Loan receivables (continued)

Changes in the loss allowance between the beginning and end of the year were attributable to the following items:

- Transfers to/(from) stages: movements due to transfers of credit exposures between Stage 1, Stage 2 and Stage 3.
- New financial assets originated: movements in credit exposures and provisions for impairment due to new financial assets originated.
- Changes in PDs/LGDs/EADs: movements due to changes in probability of default, loss given default and exposure at default. Expected loss rates are based on payment profiles, age and expected lifetime of the receivables, changes in underlying credit quality and historic loss experience.
- Changes to model assumptions and methodologies: movements in provisions for impairment due to adjustments reflecting forward-looking macro-economic information or other assumptions.
- Written-off and settled loans: derecognition of credit exposures and provisions for impairment upon write-off or repayment of receivables.

*Accounting policy*

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 July 2020 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.

The full impacts of the COVID-19 pandemic have yet to result in anticipated increases in delinquencies due to the government stimulus packages supporting consumers. As these likely future delinquencies are not currently captured in the modelled outcome, the Group has specifically considered the likely customer impacts through an economic risk reserve. The ECL model is adjusted to reflect forward-looking macro-economic information to allow for additional risk in compliance with AASB 9.

## 3.2 Loan receivables (continued)

An assessment was undertaken to determine the most relevant and reliable economic indicator on which to base a forward-looking assessment of expected credit loss. The unemployment rate was chosen as a key indicator of impairment levels for the portfolios. Using publicly available forecasts for unemployment rates over the next year, alternate scenarios, outlined below, were determined. A probability weighting was attributed to each scenario with the highest weighting being applied to the downside case reflecting the significant uncertainty regarding the impact to loan loss rates once government support packages cease. The outcome of this is an additional $4.282 million provision for personal loan receivables and a $2.910 million provision for vehicle finance loan receivables.

The following provides an overview of the scenarios chosen as well as the expected change to the total overlay were the individual scenarios to be given a 100% weighting and holding all other assumptions constant:

| **Scenario** | **Forecast basis** | **Sensitivity** |
|---|---|---|
| Baseline | Central bank forecast for unemployment rates baseline case. | A 100% weighting to this scenario would reduce the total expected credit loss provision by circa $766 thousand. |
| Upside | Central bank forecast for unemployment rates upside case. | A 100% weighting to this scenario would reduce the total expected credit loss provision by circa $2.434 million. |
| Downside | Central bank forecast for unemployment rates downside case. | A 100% weighting to this scenario would increase the total expected credit loss provision by circa $1.829 million. |

The table below provides a summary of the unemployment rate forecasts used in the baseline, upside and downside scenarios:

| ***Unemployment rate*** | ***FY 2021*** | ***FY 2022*** |
|---|---|---|
| Baseline | 9.3% | 8.2% |
| Upside | 8.8% | 7.3% |
| Downside | 9.8% | 9.9% |

*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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| New and pre-owned goods at cost | 16,272 | 21,904 |
| Provision for obsolete stock | (1,051) | (1,563) |
| New and pre-owned goods (net) | 15,221 | 20,341 |
| New and used motor vehicles at cost | - | 29 |
| | 15,221 | 20,370 |

*Accounting policies*
Inventories are valued at the lower of cost and net realisable value. Costs, including purchase costs are assigned to individual inventory items on hand. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

### 3.4 Prepayments

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| ***Current*** | | |
| Prepaid commissions | 1,498 | 4,878 |
| Other prepayments | 3,461 | 2,888 |
| | 4,959 | 7,766 |
| ***Non-current*** | | |
| Prepaid commissions | 2,129 | 3,083 |

*Accounting policies*
Prepayments for goods and services which are to be provided in future years are recognised as prepayments and amortised over the period in which the economic benefits are received. Prepaid commissions relating to loan receivables are amortised over the life of the related loan receivable at the effective interest rates which match the revenue recognition from the loan receivable.

### 3.5 Plant and equipment

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Cost*** | | | |
| Balance at 1 July 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 |
| Additions | 462 | 749 | 1,211 |
| Disposals | (513) | (2,736) | (3,249) |
| Foreign currency exchange differences | - | (2) | (2) |
| Balance at 30 June 2020 | 12,863 | 7,896 | 20,759 |

### 3.5 Plant and equipment (continued)

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Depreciation*** | | | |
| Balance at 1 July 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 |
| Disposals | (389) | (2,220) | (2,609) |
| Depreciation expense | 1,156 | 962 | 2,118 |
| Foreign currency exchange differences | - | (4) | (4) |
| Balance at 30 June 2020 | 10,037 | 6,094 | 16,131 |
| | | | |
| ***Net book value*** | | | |
| As at 30 June 2019 | 3,644 | 2,529 | 6,173 |
| As at 30 June 2020 | 2,826 | 1,802 | 4,628 |

*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 |

### 3.6 Right-of-use assets

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| ***Cost*** | | |
| Balance at beginning of year | 61,904 | - |
| Additions | 499 | - |
| Terminations | (122) | - |
| Remeasurements | (2,661) | |
| Foreign currency exchange differences | 26 | - |
| Balance at end of year | 59,646 | - |

### 3.6 Right-of-use assets (continued)

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| ***Depreciation*** | | |
| Balance at beginning of year | - | - |
| Terminations | - | - |
| Depreciation expense | 9,153 | - |
| Foreign currency exchange differences | (30) | - |
| Balance at end of year | 9,123 | - |
| ***Net book value*** | 50,523 | - |

The Group right-of-use assets relate to property leases. The average lease term is 5.42 years. The corresponding lease liability analysis is presented in note 4.2.

| | 2020 $'000 |
|---|---|
| ***Amounts recognised in profit and loss*** | |
| Depreciation expense on right-of-use assets | 9,153 |
| Interest expense on lease liabilities | 4,223 |
| Expense relating to short-term leases | 259 |
| | 13,635 |

### 3.7 Goodwill

| | 2020 $'000 | 2019 $'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.

**Allocation of goodwill to CGUs**

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

| | | |
|---|---|---|
| Personal finance | 90,561 | 90,561 |
| Store operations | 16,406 | 16,406 |
| | 106,967 | 106,967 |

## 3.7 Goodwill (continued)

**Impairment losses recognised**

No impairment losses have been recognised in the years ended 30 June 2020 or 30 June 2019.

**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 industry growth rates and 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. There is inherent uncertainty associated with the key assumptions supporting the cash flow projections including the duration of the economic downturn associated with COVID-19 and the recovery period.

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 3.5) and other intangible assets (note 3.8) is assessed using the impairment testing as outlined in this note.

*Impact of COVID-19*

The impact of COVID-19 on the general economy is sufficiently pervasive to be considered an impairment indicator. Impairment testing undertaken has considered alternative scenarios to the base case assumptions whereby lending recovery is both slower and faster than the base case.

*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 2020, as well as forecasts for the impact of future regulatory changes planned but not yet legislated.

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.

## 3.7 Goodwill (continued)

The recoverable value of both the Personal finance and Store operations businesses may be impacted by potential future legislative changes given the potential 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.

In assessing the recoverable value, alternative cash flow projection scenarios were considered on a probability basis. The alternative scenarios considered include varying projections for lending volume recovery reflecting slower and faster projections from the base forecast. Additionally, the alternative scenarios reflected application of the PEA legislation to all customers at both the existing 20% and proposed 10% of customers.

Forecast revenue and expense growth rates in the table below reflect the range of assumptions in the scenarios developed spanning varying lending recovery rates post COVID-19 in FY2021 and FY 2022 as well as the impact of PEA legislation changes in FY 2023 (impacting cash flows beyond year 2). Probability weightings were applied to the scenarios. Revenue growth projections for FY 2022 reflect returns to pre-COVID-19 lending volumes from a diminished revenue base forecast for FY 2021. Revenue is not forecast to return to pre-COVID-19 levels until FY 2024. Revenue and expense growth projections beyond year 2 reflect the range of impacts under PEA legislation changes.

The following key assumptions were used in the impairment testing:

| ***Assumption*** | ***Personal finance*** | ***Store operations*** |
|---|---|---|
| 2021 budget revenue growth / (reduction) | (26%) to (30%) | (8%) to (9%) |
| 2021 budget expense growth / (reduction) | (8%) to (14%) | (6%) |
| 2022 forecast revenue growth / (reduction) | 29% to 37% | 7% |
| 2022 forecast expense growth / (reduction) | 13% to 16% | 2% |
| Revenue growth rate beyond year 2 | (20%) to 5% | (5%) to 1% |
| Expense growth rate beyond year 2 | (22%) to 3% | (2%) to 1% |
| Terminal growth rate > 5 years | 2% | 2% |
| Post-tax discount rate applied to cash flows | 10.6% | 10.6% |

For the year ended 30 June 2019 the key assumptions used included:

- 2020 growth rates for revenue and expenses in Personal finance of -5% and -11% respectively, in the following years growth rates ranged from +1% to +5% for revenue and -4% to +2% for expenses;
- 2020 growth rates for revenue and expenses in Store operations of -5% and -11% respectively, in the following years growth rates ranged from +1% to +2% for revenue and -4% to +2% for expenses;
- Post-tax discount rates of 9.8% and terminal growth rates of 2.5%.

## 3.8 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. Intangible assets with indefinite lives included within other intangible assets are tested for impairment annually. Refer to note 3.7 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 2020 (2019: nil).

### 3.8 Other intangible assets (continued)

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Franchise operations (excluding UK) | 5,085 | 5,715 |
| Franchise operations (UK) | 1,722 | 3,096 |
| Personal finance | 8,053 | 11,897 |
| Store operations | 3,363 | 4,271 |
| Vehicle financing | 3,148 | 1,945 |
| | 21,371 | 26,924 |

***Categories of other intangible assets***

| | Reacquired rights $'000 | Trade names & customer relationships $'000 | Software $'000 | Total $'000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| Balance at 1 July 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 |
| Additions | - | - | 2,962 | 2,962 |
| Disposals | (746) | - | (5,584) | (6,330) |
| Foreign currency exchange differences | (9) | - | 6 | (3) |
| Balance at 30 June 2020 | 6,867 | 16,850 | 22,676 | 46,393 |
| | | | | |
| ***Amortisation*** | | | | |
| Balance at 1 July 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 |
| Disposals | - | - | (3,776) | (3,776) |
| Amortisation expense | 329 | 127 | 5,511 | 5,967 |
| Foreign currency exchange differences | (4) | - | (5) | (9) |
| Balance at 30 June 2020 | 5,791 | 8,980 | 10,251 | 25,022 |
| | | | | |
| As at 30 June 2019 | 2,156 | 7,997 | 16,771 | 26,924 |
| As at 30 June 2020 | 1,076 | 7,870 | 12,425 | 21,371 |

*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.

### 3.8 Other intangible assets (continued)

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.

### 3.9 Trade and other payables

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | 1,952 | 2,014 |
| Accruals | 11,364 | 13,282 |
| Class Action final settlement payment | 10,000 | - |
| | 23,316 | 15,296 |

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.

### 3.10 Provisions

| | | | |
|---|---|---|---|
| **Current** | | | |
| Employee benefits | | 6,942 | 6,235 |
| Fringe benefits tax | | 54 | 41 |
| Onerous lease contracts | (i) | 82 | 518 |
| Other | | 977 | 250 |
| | | 8,055 | 7,044 |
| **Non-current** | | | |
| Employee benefits | | 798 | 887 |
| Onerous lease contracts | (i) | 459 | 825 |
| | | 1,257 | 1,712 |

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

### 3.10 Provisions (continued)

Movements in the provisions were as follows:

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Balance at beginning of year | 8,756 | 8,423 |
| Arising during the year | 824 | 1,045 |
| Utilised during the year | (263) | (747) |
| Foreign currency exchange differences | (5) | 35 |
| Balance at end of year | 9,312 | 8,756 |

*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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash on hand | 2,050 | 2,407 |
| Cash at bank | 104,498 | 78,694 |
| | 106,548 | 81,101 |

Cash at bank includes restricted cash of $4.839 million (2019: $6.592 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 $6.270 million (2019: $5.730 million) on deposit as security for banking facilities.

### 4.2 Lease liabilities

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Current** | | |
| Lease liabilities | 6,922 | - |
| | | |
| **Non-current** | | |
| Lease liabilities | 46,121 | - |
| | | |
| Maturity analysis | | |
| Year 1 | 10,694 | - |
| Year 2 | 9,295 | - |
| Year 3 | 7,840 | - |
| Year 4 | 7,284 | - |
| Year 5 | 6,381 | - |
| Onwards | 34,650 | - |
| | 76,144 | - |
| Less: unearned interest | (23,101) | - |
| | 53,043 | - |

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.

## 4.3 Borrowings

| | | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|---|
| **Current** | | | |
| Securitisation facility | (i) | 60,576 | 87,826 |
| Insurance premium funding | | 42 | - |
| | | 60,618 | 87,826 |
| | | | |
| **Non-current** | | | |
| Securitisation facility | (i) | 27,174 | 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 consolidated entity currently expects to utilise this facility until at least 18 December 2022.

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

| | 2019<br>$'000 | Cash flows<br>$'000 | Non-cash changes Borrowing costs<br>$'000 | 2020<br>$'000 |
|---|---|---|---|---|
| Securitisation facility | 123,336 | (35,250) | (336) | 87,750 |

*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.

## 4.3 Borrowings (continued)

***Financing arrangements***

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Total facilities** | | |
| Securitisation facilities | 150,000 | 150,000 |
| **Used at balance date** | | |
| Securitisation facilities | 89,250 | 124,500 |
| **Unused at balance date** | | |
| Securitisation facilities | 60,750 | 25,500 |

Refer to note 4.4 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.

## 4.4 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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 106,548 | 81,101 |
| Trade and other receivables | 11,630 | 14,087 |
| Loan receivables | 129,616 | 174,600 |
| | 247,794 | 269,788 |
| **Financial liabilities** | | |
| Trade and other payables | 23,316 | 15,296 |
| Borrowings | 87,792 | 123,336 |
| | 111,108 | 138,632 |

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

**4.4 Financial risk factors (continued)**

**(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 (2019: nil) other than in the functional currency of the operating entity.

**(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 $129 thousand (2019: increase/decrease by approximately $446 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. Refer to note 3.2. 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.

**4.4 Financial risk factors (continued)**

**(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 4.3 is a listing of additional undrawn facilities that the Company / Group has at its disposal to further reduce liquidity risk.

***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.

| | 1 year or less | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| ***2020*** | | | | |
| Non-interest bearing | 23,316 | - | - | 23,316 |
| Variable interest rate instruments | 60,618 | 27,174 | - | 87,792 |
| | 83,934 | 27,174 | - | 111,108 |
| ***2019*** | | | | |
| Non-interest bearing | 15,296 | - | - | 15,296 |
| Variable interest rate instruments | 87,826 | 35,510 | - | 123,336 |
| | 103,122 | 35,510 | - | 138,632 |

## 4.4 Financial risk factors (continued)

*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.

| | 1 year or less | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| ***2020*** | | | | |
| Non-interest bearing | 41,109 | - | - | 41,109 |
| Fixed interest rate instruments | 180,674 | 60,518 | - | 241,192 |
| Variable interest rate instruments | 63,469 | - | - | 63,469 |
| | 285,252 | 60,518 | - | 345,770 |
| ***2019*** | | | | |
| Non-interest bearing | 27,862 | - | - | 27,862 |
| Fixed interest rate instruments | 236,815 | 96,654 | - | 333,469 |
| Variable interest rate instruments | 35,201 | - | - | 35,201 |
| | 299,878 | 96,654 | - | 396,532 |

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.

## (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 2020 and 30 June 2019, 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 2020 and 30 June 2019, 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.

### 4.5 Issued capital

| | 2020 Number | 2019 Number | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | 616,437,946 | 616,437,946 | 248,714 | 248,714 |
| Issued during the year | - | - | - | - |
| 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance at beginning of year | 6,452 | 5,282 |
| Net profit for year | 3,338 | 1,613 |
| Provision for impairment of investment | (2,300) | - |
| Return on investment received | (659) | (680) |
| Foreign exchange adjustment in value of investment | (195) | 237 |
| Balance at end of year | 6,636 | 6,452 |

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.

### 5.1 Investment in associates (continued)

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.

**Impairment**

The Company's investment in the Cash Converters Holding Limited Partnership has been tested for impairment, as required, under the accounting standards at 30 June 2020.

Recent changes to consumer credit laws in New Zealand triggered an impairment test of the investment's carrying value. The changes introduced new rules for loans that have an annual interest rate of 50% or more, which are deemed "high-cost" under the legislation. The new rules for "high-cost" loans include limits to cap the total cost of borrowing on the loan and a cap on the rates of interest and fees charged. These changes have necessitated the New Zealand enterprise developing and distributing a new product with substantially different interest rates. No impairment indicators were present in the prior period.

Financial forecasts were developed for the New Zealand enterprise and these forecasts were used to assess the recoverable value of the investment based on a value in use calculation. Financial forecasts were projected for 5 years including a terminal year value and discounted using an appropriate discount rate. The growth rate used to extrapolate cashflow projections beyond the period covered by the most recent budgets/forecasts was 2% and the post-tax discount rate used was 10.6%.

Key assumptions within the cashflow projections supporting the value in use calculation include forecast lending volumes and forecast bad debt rates for the new lending products. Forecast lending volumes have been based on past experience with lending products.

Review of the financial forecasts identified assumptions regarding the forecast bad debt rates as being a critical judgement area. In assessing the recoverable value alternative bad debt rate scenarios, including a historic bad debt rate, an improved bad debt rate and a more pessimistic forecast for bad debt rates, were considered on a probability weighted basis.

This assessment identified that the recoverable value was below the carrying amount and hence an impairment provision of $2.300 million has been reflected against the value of the investment.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions could require a material adjustment to the carrying amount of the asset. To the extent that the recoverable amount of the investment subsequently increases any reversal of the impairment loss is recognised in accordance with ASB 136 Impairment of Assets.

The recoverable value of the investment in the Cash Converters Holding Limited Partnership is sensitive to changes in its discount rate and earnings before tax forecasts. When applying the same probability weighted assessment a 100 basis point increase in discount rate or a 10% reduction in its forecast earnings before tax would result in a further $727 thousand and $676 thousand impairment respectively.

## 5.1 Investment in associates (continued)

**Summarised financial information**

Summarised financial information in respect of the Group's interest in Cash Converters Holdings Limited Partnership is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Current assets | 7,943 | 5,349 |
| Non-current assets | 4,266 | 4,885 |
| Current liabilities | (425) | (629) |
| Non-current liabilities | (2,848) | (3,153) |
| **Net assets** | 8,936 | 6,452 |

## 5.2 Controlled entities

### (a) Composition of the Group

Controlled entities of Cash Converters International Limited:

| Name of entity | Country of incorporation | Ownership interest 2020 | 2019 |
|---|---|---|---|
| BAK Property Pty Ltd (4) | Australia | 0% | 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% |
| CC Acquisitions Pty Ltd (2) | Australia | 100% | 0% |
| 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 (2) | Australia | 100% | 100% |
| Safrock Finance Corporation WA Pty Ltd (1) (2) (4) | Australia | 0% | 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 2020.
(2) These companies are members of the tax consolidated group.
(3) Non-controlling interest is not considered material in these subsidiaries.
(4) These dormant entities were deregistered during the year ended 30 June 2020.

## 5.2 Controlled entities (continued)

### (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 2020 and consolidated Statement of Financial Position as at 30 June 2020, comprising the members of the Closed Group after eliminating all transactions between members are set out on the following pages.

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit / (loss) before income tax | (12,841) | (2,200) |
| Income tax benefit / (expense) | 2,824 | 674 |
| Total comprehensive income | (10,017) | (1,526) |

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

| | | |
|---|---|---|
| Retained earnings at beginning of year | 98,295 | 103,916 |
| AASB 9 adjustment to opening retained earnings | - | (4,669) |
| Transfer reserve balance | 180 | 574 |
| Net profit | (10,017) | (1,526) |
| Retained earnings at end of year | 88,458 | 98,295 |

**Statement of financial position**

| | | |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 102,897 | 69,227 |
| Trade receivables | 1,912 | 4,318 |
| Loan receivables | 93,688 | 128,374 |
| Inventories | 14,900 | 20,364 |
| Prepayments | 4,720 | 7,165 |
| Current tax receivable | 1,424 | 1,897 |
| **Total current assets** | 219,541 | 231,345 |

### 5.2 Controlled entities (continued)

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Non-current assets** | | |
| Trade and other receivables | 13,412 | 22,236 |
| Loan receivables | 35,929 | 46,226 |
| Plant and equipment | 4,535 | 6,022 |
| Right-of-use assets | 50,139 | - |
| Deferred tax assets | 15,423 | 12,021 |
| Goodwill | 106,967 | 106,967 |
| Other intangible assets | 20,299 | 24,687 |
| Prepayments | 2,128 | 3,083 |
| Investments in associates | 6,636 | 6,452 |
| Other financial assets | 30,250 | 30,250 |
| **Total non-current assets** | 285,718 | 257,944 |
| | | |
| **Total assets** | 505,259 | 489,289 |
| | | |
| **Current liabilities** | | |
| Trade and other payables | 20,051 | 10,564 |
| Lease liabilities | 6,092 | - |
| Borrowings | 60,618 | 87,826 |
| Provisions | 7,329 | 6,526 |
| **Total current liabilities** | 94,090 | 104,916 |
| | | |
| **Non-current liabilities** | | |
| Lease liabilities | 45,783 | - |
| Borrowings | 27,174 | 35,510 |
| Provisions | 798 | 887 |
| **Total non-current liabilities** | 73,755 | 36,397 |
| | | |
| **Total liabilities** | 167,845 | 141,313 |
| | | |
| **Net assets** | **337,414** | **347,976** |
| | | |
| **Equity** | | |
| Issued capital | 248,714 | 248,714 |
| Reserves | 242 | 967 |
| Retained earnings | 88,458 | 98,295 |
| **Total equity** | **337,414** | **347,976** |

## 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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Assets** | | |
| Current assets | 1,476 | 1,904 |
| Non-current assets | 251,986 | 252,565 |
| **Total assets** | 253,462 | 254,469 |
| **Liabilities** | | |
| Current liabilities | 41 | 9 |
| Non-current liabilities | - | - |
| **Total liabilities** | 41 | 9 |
| **Net assets** | 253,421 | 254,460 |
| **Equity** | | |
| Issued capital | 248,714 | 248,714 |
| Reserves | 337 | 884 |
| Retained earnings | 4,370 | 4,862 |
| **Total equity** | 253,421 | 254,460 |

### (b) Comprehensive income

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| (Loss) for the year | (492) | (456) |
| Other comprehensive income | - | - |
| **Total comprehensive (loss)** | (492) | (456) |

### (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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Guarantee provided under the deed of cross guarantee (1) | 2,327 | 2,348 |

(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.

Following an AUSTRAC assessment, the Group continues to engage with AUSTRAC with respect to concerns expressed on the Group's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("the Act").

On 7 August 2020, AUSTRAC issued a Notice on Cash Converters Pty Ltd, a wholly-owned subsidiary of the Group requiring information and documents be given and produced on or before 2 October 2020. The relevant period to which the required information is to be provided is 14 February 2014 to 14 February 2020.

The Group is co-operating fully with AUSTRAC and intends to comply by responding to the requirements outlined in the Notice on or before the requested due date. Additionally the Group is continuing to strengthen its Anti-Money Laundering and Counter-Terrorism Financing Program.

At the date of this report the outcome is unknown as AUSTRAC have not completed their investigation and therefore it is not possible to determine the extent of any potential financial impact to the Group. Consequently, no amounts have been included as contingent liabilities at the date of this report.

The directors are not aware of any other material contingent liabilities in existence as at 30 June 2020 requiring disclosure in the financial statements.

## 6.2 Commitments

***Operating leases***

*Non-cancellable operating lease commitments payable:*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Within one year | - | 11,223 |
| One to five years | - | 26,136 |
| Later than five years | - | 1,267 |
| | - | 38,626 |

As a result of the adoption of AASB 16 *Leases* during the current year, $38,320 million of operating lease commitments recognised at 30 June 2019 were recognised as lease liabilities on 1 July 2019.

***Capital expenditure***

As at 30 June 2020, capital expenditure commitments were nil (2019: nil).

***Other contractual commitments***

| | 2020 | 2019 |
|---|---|---|
| Within one year | 295 | 785 |
| One to five years | 1,098 | 450 |
| | 1,393 | 1,235 |

## 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 (2019: $120,000) was paid for consulting services to an entity controlled by Mr P Cohen, the beneficial owner of EZCORP Inc, the Company's largest shareholder.

Mr Brendan White, former Chief Executive Officer, received unsecured loans from the Company during the year ended 30 June 2019 totalling $441,216 to assist with the transfer of financial arrangements necessitated from his departure from Bank of Queensland. The loan accrued interest at 5.65% per annum and the outstanding balance at the date of his resignation on 26 February 2020 of $415,045 was forgiven. Further details are provided in the Remuneration Report.

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)
- Ms Julie Elliott (Non-Executive Director, appointed 14 April 2020)
- Mr Lachlan Given (Non-Executive Director)
- Mr Robert Hines (Non-Executive Director, appointed 14 April 2020)
- Mr Sam Budiselik (Chief Operating Officer to 26 February 2020: Chief Executive Officer from 26 February 2020)
- Mr Leslie Crockett (Chief Financial Officer from 2 June 2020)
- Mr Brad Edwards (General Counsel and Company Secretary)
- Mr Peter Egan (Chief Risk Officer from 3 February 2020)
- Mr Ben Cox (General Manager Corporate Distribution to 13 September 2019)
- Mr Martyn Jenkins (Chief Financial Officer to 2 September 2019)
- Mr Brendan White (Chief Executive Officer to 26 February 2020)

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

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Short-term employee benefits | 4,295,040 | 3,823,836 |
| Post-employment benefits | 112,947 | 152,708 |
| Other long-term benefits | (24,019) | 22,580 |
| Share-based payments | (194,373) | (466,658) |
| Termination benefits | 302,500 | 747,077 |
| | 4,492,095 | 4,279,543 |

### 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 37,063,109 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 10,201,088 performance rights were granted in Tranches 27 and 28 to senior executives of the Company.

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 |
|---|---|---|---|---|---|
| 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 |
| 27 | 9 Jun 2020 | 5,100,544 | $0.17 | $0.00 | 30 Jun 2022 |
| 28 | 9 Jun 2020 | 5,100,544 | $0.19 | $0.00 | 30 Jun 2022 |

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

The weighted average fair value of the performance rights granted during the financial year is $0.18 (2019: $0.17). 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 27 | Tranche 28 |
|---|---|---|
| Grant date | 9 Jun 2020 | 9 Jun 2020 |
| Option pricing model | Monte Carlo | Binomial |
| Grant date share price | $0.195 | $0.195 |
| Exercise price | $0.00 | $0.00 |
| Expected volatility | 50% | 50% |
| Option life | 2.06 years | 2.06 years |
| Dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 0.28% | 0.28% |

## 6.5 Share-based payments (continued)

***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.

| | 2020<br>Number | 2019<br>Number |
|---|---|---|
| Outstanding at beginning of year | 10,973,770 | 9,819,506 |
| Granted during year | 10,201,088 | 9,218,162 |
| Forfeited / lapsed during year | (7,064,712) | (8,063,898) |
| Exercised during year | - | - |
| Outstanding at end of year | 14,110,146 | 10,973,770 |

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

No share options were exercised during the years ended 30 June 2019 or 2020.

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

| Tranche | Grant date | Number lapsed |
|---|---|---|
| ***Year ended 30 June 2020*** | | |
| 21 | 14 Feb 2018 | 999,380 |
| 22 | 14 Feb 2018 | 999,380 |
| 23 | 19 Dec 2018 | 689,343 |
| 24 | 19 Dec 2018 | 689,343 |
| 25 | 26 Mar 2019 | 1,843,633 |
| 26 | 26 Mar 2019 | 1,843,633 |
| | | 7,064,712 |
| ***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 |

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

The total number of options outstanding at 30 June 2020 was 14,110,146 (2019: 10,973,770).

| Tranche | Grant date | Number of rights | Grant date fair value | Exercise price | Expiry date |
|---|---|---|---|---|---|
| 23 | 19 Dec 2018 | 1,954,529 | $0.15 | $0.00 | 30 Jun 2021 |
| 24 | 19 Dec 2018 | 1,954,529 | $0.24 | $0.00 | 30 Jun 2021 |
| 27 | 9 Jun 2020 | 5,100,544 | $0.17 | $0.00 | 30 Jun 2022 |
| 28 | 9 Jun 2020 | 5,100,544 | $0.19 | $0.00 | 30 Jun 2022 |
| | | 14,110,146 | | | |

## 6.5 Share-based payments (continued)

The weighted average remaining contractual life for the performance rights outstanding at 30 June 2020 was 1.7 years (2019: 1.8 years).

*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

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| *Auditor of the parent entity* | | |
| Audit / review of the financial report | 539,530 | 466,399 |
| Other non-audit services | - | 26,083 |
| *Related practice of the parent entity auditor* | | |
| Audit | 50,160 | 46,974 |
| Taxation services | 18,310 | 15,176 |
| | 608,000 | 554,632 |

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

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

Victoria entered Stage 4 pandemic restrictions with effect from Thursday 6 August 2020 for a minimum six week period, impacting 19 metropolitan corporate stores and 9 franchise stores. The ongoing impact is not able to be estimated by the directors at this point in time.

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

Peter Cumins
Director

Perth, Western Australia
27 August 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 11, 37 St Georges Terrace
Perth WA 6000

27 August 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 audit of the financial statements of Cash Converters International Limited for the financial year ended 30 June 2020, 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

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 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 2020, 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 2020 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the 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.

| Key audit matter | How the scope of our audit responded to the Key Audit Matter |
| --- | --- |
| **Carrying value of non-current assets**<br><br>As disclosed in Notes 3.7 and 3.8, the carrying value of goodwill and other intangible assets as at 30 June 2020 relating to the personal finance and store operations was $107.0 million and $11.4 million respectively.<br><br>Management undertakes impairment testing to test the recoverability of goodwill and intangible assets annually. Additionally, an assessment is made as to whether any non-current asset or cash generating unit ('CGU') may be impaired at balance date.<br><br>The assessment of the recoverable value requires significant judgement in respect of assumptions and estimates in preparing a value in use model ('VIU') such as:<br>• discount rates;<br>• forecast retail growth rates;<br>• forecast loan volumes;<br>• forecast bad debt levels; and<br>• weighted probability scenario's in relation to the uncertainty surrounding the timing of COVID-19 recovery. | Our procedures included, but were not limited to:<br>• evaluating the key controls management has in place in relation to the estimate of the recoverable amount of the personal finance and store operations;<br>• comparing the forecasts used in calculating the recoverable amount to the Board approved business plan;<br>• evaluating the forecasts used in calculating the recoverable amount by reference to recent performance of the business and assessing historical forecasting accuracy;<br>• in conjunction with our valuation specialists we assessed and challenged the assumptions and methodologies used, in particular:<br>  ◦ our independently determined range of reasonable discount rates was compared to the rates used by management;<br>  ◦ we compared forecast loan volumes for personal loans against recent actual levels of lending and the historic growth rates in lending;<br>  ◦ we compared forecast bad debt levels for personal loans to historic bad debt levels;<br>  ◦ we compared forecast retail and pawn broking revenue growth rates to historic grow rates as well as external data on expected industry growth rates;<br>• evaluating the probability weighted scenarios applied by management for the impacts of COVID-19 and potential legislation changes on future personal loan volumes;<br>• sample testing management's models for mathematical accuracy; and<br>• assessing the appropriateness of the disclosures in the Notes to the financial statements. |

Deloitte.

<table>
<tr><th>Key audit matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Allowance for impairment losses – loan receivables<br><br>As disclosed in Note 3.2, the carrying value of loan receivables as at 30 June 2020 was $129.6 million, net of allowances for impairment losses of $30.4 million.<br><br>The assessment of the recoverable value of loans requires significant judgements in determining the approach for estimating expected credit losses.<br><br>Management uses an expected credit loss model taking into account the historical losses observed, current conditions of the loan receivables and forecast future economic conditions.<br><br>Significant judgement has been applied to assess the likely future economic conditions resulting from the COVID-19 pandemic using a macroeconomic model overlay incorporating publicly available forecasts for unemployment rates and probability weighted scenarios focused on the rate of economic recovery.</td><td><br><br>Our procedures included, but were not limited to:<ul><li>evaluating the key controls management have in place in relation to the estimate of the expected credit losses, loan originations, collections and arrears management;</li><li>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;</li><li>assessing the accuracy and completeness of the historical data on a sample basis utilised in the model;</li><li>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;</li><li>assessing the impact of COVID-19, including the Melbourne lock down on the loan recovery assumptions; and</li><li>assessing the appropriateness of the disclosures in the Notes to the financial statements.</li></ul></td></tr>
</table>

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, 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.

Deloitte.

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, actions taken to eliminate threats or safeguards applied.

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.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 to 26 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Cash Converters International Limited, for the year ended 30 June 2020, 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, 27 August 2020