COLLECTION HOUSE LIMITED :: **ANNUAL REPORT** 2010

# Contents

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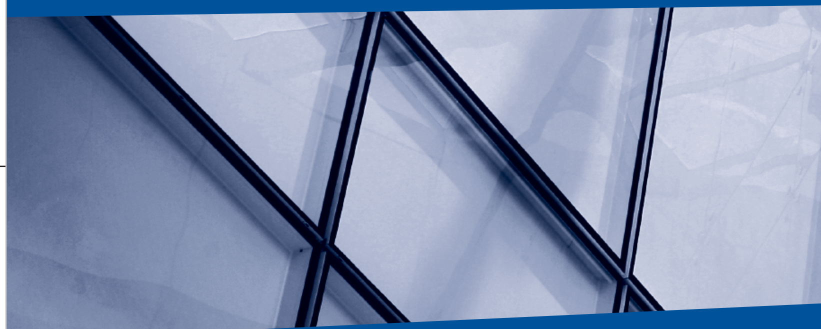
## Notice Of Annual General Meeting

The Annual General Meeting of Collection House Limited will be held on 29 October 2010 at 11.00am at the Emporium Hotel, 1000 Ann Street, Fortitude Valley, Brisbane, QLD.

The business of the meeting is outlined in the formal Notice and Proxy Form that are enclosed with this report.





# Aspirational goals

Our commitment to stakeholders is:

## Our Clients

- To have strong relationships with key organisations in selected market segments.
- To be proven by our clients as the agency of choice in terms of performance and outstanding results.

## Our Customers

- To be regarded by regulators and consumer representatives as leading the way in ethical debt collection and compliance.

## Our Staff

- To be viewed by our staff as a first class working environment built on values of accountability, respect, clear communication, teamwork, professionalism and innovation.

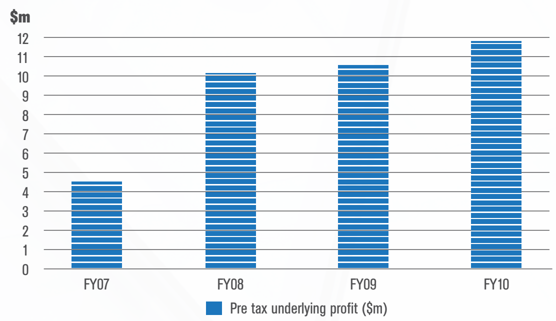
## Our Shareholders

- Over time, to be achieving market sector leading increases in profitability and dividends.
- To achieve a share price more reflective of financial performance.

# 2010 Performance Highlights

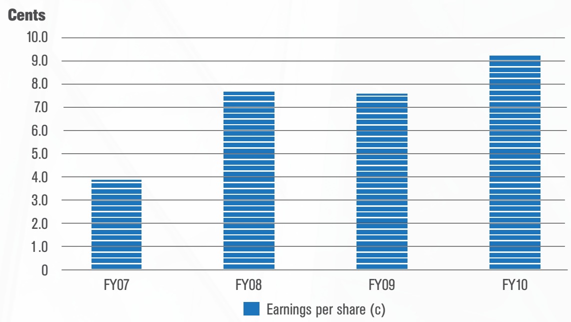
| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Pre tax underlying profit ($m) | 4.4 | 10.1 | 10.5 | 11.8 |
| % growth | | 129% | 4% | 13% |

UP TO **$11.8m**




| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Earnings per share (cents)* | 3.9 | 7.7 | 7.6 | 9.2 |
| % growth | | 97% | (1%) | 21% |

UP TO **9.2 cents**




*Underlying

## What we do

Collection House Limited is one of Australia's leading receivables managers and the only major collections agency to be listed on ASX.

Our blue chip client base, comprising major banks, financial institutions, insurance houses, large corporations, public utilities and local governments is serviced via Australasia's largest and most effective collections network.

This network comprises offices in Queensland, New South Wales (2), Victoria (4), South Australia and New Zealand. Supporting this service orientated distribution capability, is a highly trained and dedicated staff resource, which totalled 580 as at 30 June 2010.

Our highly skilled staff, our commitment to the highest standards of ethical debt collection and our consistent performance are the competitive strengths which underpin our three core businesses and specialist services:

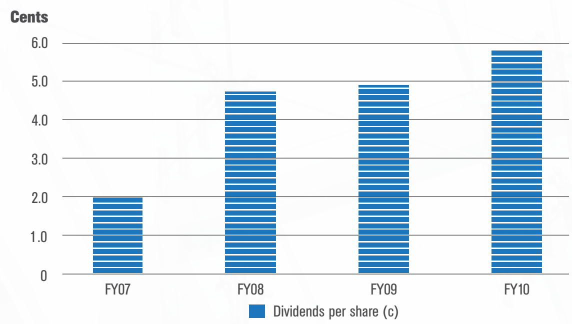
## Our core businesses

### Commission Collections

As one of the most highly regarded industry participants in Australasia, our Commission Collections division achieved moderate revenue growth in 2009/10 in the face of tighter economic conditions. More targeted sales and marketing initiatives and an improved internal sales structure, will capitalise on its industry leading reputation to drive growth in 2010/11.

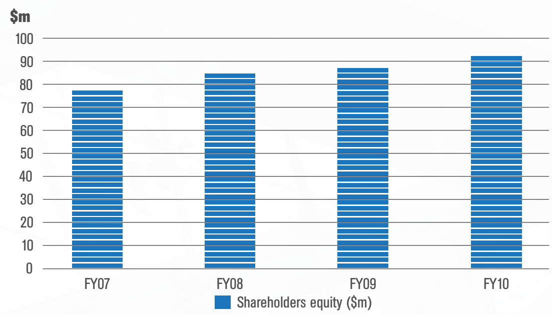
| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Dividends per share (cents) | 2.0 | 4.7 | 4.9 | 5.8 |
| % growth | | 135% | 4% | 18% |

UP TO **5.8 cents**




| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Shareholders equity ($m) | 77 | 84 | 88 | 92 |
| % growth | | 9% | 4% | 4% |

UP TO **$92m**




## Specialist services

### Receivables Management

Increased efficiencies and use of technology within the Receivables Management division resulted in record low arrears in 2009/10. A focus on retaining our core base of long-term experienced employees will increase volume and productivity in the year ahead. The launch of a new collections platform C5 in 2010/11 will maximise forecast receivables growth.

### Purchased Debt

Revenue for the Purchased Debt Arrangement Book, the most significant part of our Purchased Debt portfolio, increased 21% to $128 million. We have leveraged our strong relationship with key debt sellers to reinforce the debt buying program for 2010/11, with a budgeted increased investment in this area of $37 million to $47 million.

### Jones King Lawyers Pty Ltd

Our in-house legal Recovery and Insolvency Administration subsidiary provides clients access to a cost effective and highly specialised legal recovery service.

### Midstate Credit Management Services Pty Ltd

This established agency offers a diverse range of collection and credit consulting services, specialising in local Government.

# Chairman's Statement

## "During this financial year both our pre-tax and after tax profit, along with the fully franked dividends have all shown significant increases on the previous year."

A year has now passed since my initial report to you as Chairman. And, it is pleasing to be able to continue the good news story contained in the previous report. During this financial year both our pre-tax and after tax profit, along with the fully franked dividends have all shown significant increases on the previous year.

The overall progress of the company in achieving key goals has been commendable under the stewardship of MD/CEO Tony Aveling. During the past three and a half years, the company has achieved a maturity that will assist us greatly going forward. We advised the market in June 2010 that Tony is retiring early in the new financial year and it is appropriate that on behalf of the Board, I recognise the outstanding job that Tony has done during his tenure with us. He has achieved an enormous amount, highlighted by producing sound and increasing results for shareholders and by building high quality executive and management teams, who are focused on continuing to deliver excellent outcomes to all stakeholders. Congratulations Tony on a super job.

Matthew Thomas who has held a number of senior positions with the company most recently as COO, has been appointed to succeed Tony Aveling as Chief Executive Officer. Matthew brings to us twenty years experience in the sector, ten at senior executive level and three under the direct tutelage of Tony Aveling. In the view of the Board, he is an outstanding appointment who will bring an abundance of ability, practical knowledge and enthusiasm to the position. Congratulations Matthew.

For the coming year, the Board has set some challenging but achievable objectives for Matthew and his dedicated team. We all expect another positive performance in this the eleventh year since we listed on the ASX in the year 2000. The Board is focussed on delivering exciting and excellent outcomes for all stakeholders.

**John Pearce**
Chairman

# Chief Executive's Report

## It is with great pride that I deliver my first report to you as Chief Executive Officer, particularly given our excellent results achieved under the leadership of the recently retired Tony Aveling.

### Highlights

Collection House has established a strong financial performance record delivering an increase of 21% ($8.9 million) in Net Profit After Tax. Our solid performance has allowed us to again offer increased shareholder distributions by declaring a fully-franked total annual dividend of 5.8 cents; up 18% on last year.

Other highlights contributing to the increased profit were the re-establishment of growth in our debt purchase arm in the last quarter following a period of restraint due to unrealistic market conditions, building on an already solid Purchased Debt arrangement book by 21% (to $128 million) and a consistent performance from our Commission Collections and Receivables Management operating arms.

In addition, our bank funding was extended for a further three years on attractive terms to accommodate future growth requirements.

While these financial results in themselves are pleasing, I would also like to make special reference to our other strengths being, among other things, our business relationships, our company ethics and good corporate governance and our workplace culture. Collectively, they form the basis of our Aspirational Goals* and have contributed enormously to our success.

### Momentum

Another notable aspect of our performance in 2010 is the positive momentum with which Collection House is moving towards 2011. This momentum is just one reason that I am privileged to have been appointed as Chief Executive Officer. I have had a lengthy association with the collection industry and Collection House, including three years as Chief Operating Officer prior to my appointment as CEO, and I am very optimistic about our future.

Our proven track record of consistent results, some of which were achieved during difficult economic times, gives the Executive Management Team the confidence that Collection House will continue on its growth path. Our initiatives of increasing market share and expanding our range of services coupled with our Aspirational Goals*, will see Collection House position itself well in the future to explore fresh opportunities in the market .

### New Collection Platform

We are well advanced with our technology refresh project (C5) which aims to implement a full technology upgrade to our current proprietary collection platform.

This $3 million project is on target to be fully operational in 2011, with pilot operations due to commence before the end of 2010.

The expected benefits following implementation are varied, not the least of which are mitigation of the risks of high reliance on dated technologies and a greatly improved ability to embed our key management controls and compliance processes within the operating design of the software.

Of paramount value are the productivity gains the new platform will deliver, achieved through full integration with our call centre and communication tools, vastly more intuitive user interfaces, and increased capability in terms of process automation and data analytics. We believe our new collection platform will be leading edge technology in our industry.

** Refer page 1*

# Chief Executive's Report

## Our performance culture

From the Latin word 'companio' the modern word 'company' is derived (as in a corporation). 'Company' also has the definition as 'a group of companions with a common purpose'. What has always been evocative throughout my management career is the concept of a corporation being historically linked to the idea of companionship and common purpose.

What I enjoy so much about working at Collection House is that a sense of camaraderie is such a strong element of our culture. Positive working principles, such as respect for others, a positive attitude, and a sense of "fair go", are a "come-to-work" expectation among peers.

With intangible assets being such an important part of the value of a service-based organisation such as Collection House, this cultural maturity is worthy of reporting to our shareholders. It has helped us increase the proportion of collection staff with tenures of more than one year to 70% and a total of 20% of our Collection Officers have worked with us for more than four years.

Improved staff retention increases productivity and cuts our recruitment and training costs. But, the additional value is that all staff are engaged and committed to achieving the Aspirational Goals* as I mentioned earlier in this report.

I would like to convey my sincere thanks and appreciation to all of our valued staff. They have delivered another year of outstanding results and demonstrated their commitment to the ongoing growth of Collection House by delivering excellent products and services to our clients and customers alike.

** Refer page 1*

## Outlook

Our current business strategy has produced excellent results to date. We will, however, continue to improve aspects of our strategy to increase company performance. Expectations for the year ahead include:

- increased revenues due to continued growth from our Purchased Debt and Receivables Management divisions
- cost savings generated from the start of 2010/2011 from a restructure of senior executive positions
- productivity improvements due to longer average tenures for our collection staff and C5 technology upgrades.

With the worst of the Global Financial Crisis behind us and Collection House well into its consolidation phase, the outlook for the year ahead is positive. In particular, productivity improvements and increased debt purchases in 2010/2011 are expected to ensure we continue to increase shareholder value.

**Matt Thomas**
Chief Executive Officer

# Core Businesses

## Collection House has three main divisions – Purchased Debt, Receivables Management and Commission Collections. All three divisions performed strongly during 2010.

These divisions are supported by our wholly owned in-house legal and insolvency arm Jones King Lawyers Pty Ltd and our subsidiary Midstate Credit Management Services Pty Ltd; a receivables management specialist arm focusing largely on Victorian regional and local government markets.

### Purchased Debt

Our debt purchasing arm remains the largest part of our business, delivering 68% of group revenues during the year. Investment in debt purchased for 2010/11 is expected to be in the range of \$37-\$47m, an increase of 28% - 62% on 2009/10. Of this, \$30m is already committed under forward flow contracts and all necessary funding arrangements are in place.

The most important part of the purchased debt portfolio is the Purchased Debt Arrangement Book, being accounts where customers have entered into formal repayment arrangements. During 2009/10, the net face value of the arrangement book increased by 21% to \$128 million. This is after a record \$30m was recovered from arrangements, an increase of 20% on 2008/09.

While flexibility on customer repayment terms was emphasised during the economic downturn, we will always try to establish arrangements with customers facing financial difficulties and expect the arrangement book to continue to grow.

We successfully leveraged our strong relationships with key debt sellers to reinforce our debt buying programme for the year ahead, after a period of exercising restraint in the face of unrealistic price expectations.

The segment achieved all its financial goals for the year with positive outcomes from major telephone and letter campaigns; excellent staff training and development and maintenance of a strong work ethic in relation to managing the older parts of the portfolio.

A revitalised mix of new business and staff initiatives also contributed to staff retention, with another increase in the average length of service of Customer Service Officers to 21.6 months (16 months in 2008/9).

Increased volumes, innovation, productivity improvement, and up skilling of the workforce will build on our future initiatives and support further quality outcomes in this division.

### Receivables Management

Our Receivables Management division is now in its tenth year of operation. It is by far the most mature and successful in the industry.

The book has continued to grow and due to increased efficiencies and use of technology we have managed to achieve record low arrears while maintaining existing staff numbers.

Further efficiencies are expected with the launch of our new collections platform C5, and our receivables business will be the first to implement the system.

Receivables growth is anticipated as most of our clients are moving to earlier outsourcing to ensure maximum return without the need for additional internal resources.

Our team is well established with long-term experienced employees. Our focus will be staff retention and increased volume and productivity.

### Commission Collections

Overall, Commission Collections had a solid year delivering on its organic development plan.

Revenue growth was a moderate 3.7% as factors such as lending policy changes, key client restructuring, and price competition held the amount of quality account referrals below anticipated levels. Tighter economic conditions encouraged consumers to show caution with changes in spending behaviour including the use of debit rather than credit facilities.

Prudent cost control enabled us to avoid any significant impact on our overall results.

This was the founding division of Collection House and is now one of the largest and best regarded participants in the industry.

A key strategy is growth through aggressive sales and marketing initiatives and an improved internal sales structure. The cost of growth will be monitored closely to ensure margins are maintained or improved.

Staff retention is excellent and should remain consistent throughout the coming year with strong focus on performance and productivity.

# Directors

*As at 30 June 2010*

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Further information on our Directors is contained in the Directors Report on page 23.







1 | **John Pearce**
Chairman

2 | **Dennis Punches**
Deputy Chairman

3 | **Tony Coutts**
Independent Director

4 | **Bill Kagel**
Independent Director

5 | **Kerry Daly**
Independent Director

6 | **Tony Aveling**
Managing Director & Chief Executive Officer
(retired 31 July 2010)

7 | **Barry Connelly**
Independent Director
(retired 30 October 2009)

8 | **Barrie Adams**
Lead Independent Director
(retired 30 October 2009)

9 | **Bill Hiller**
Independent Director
(retired 30 October 2009)




## Executive Management

**Matthew Thomas**
Chief Executive Officer
(appointed 1 August 2010)

**Adrian Ralston**
Chief Financial Officer

**Michael Watkins**
General Counsel and Company Secretary

**Kylie Lynam**
General Manager – Human Resources and Corporate Services

# Corporate Social Responsibility

## Financial Basics Foundation

"The most important financial tool is not a product, it is knowledge. Financial literacy is a valuable skill that empowers people to make sound decisions for a lifetime. It should commence early and be realistic." Barrie Adams, Chairman

The Financial Basics Foundation was established in 2002 by Collection House in response to the need for greater financial literacy among young Australians.

The Financial Basics Foundation is a small charity that has achieved outstanding success delivering financial education through Australian secondary schools. The Foundation's programs provide teachers with resources that are relevant and engaging for young people.

Operation Financial Literacy is a hard copy teaching resource that has been distributed free of charge to 46% of all secondary schools in Australia. Over 1500 schools are now using this resource.

ESSI Money (Earning Saving Spending and Investing) is the Foundation's online e-learning resource. 900 schools have registered to play ESSI Money and over 14,513 students have completed the game.

"I have used ESSI Money with two classes and the students really enjoyed doing it. They became very involved in the game and I heard them talking about it outside class. They were also keen to get back into it after the first lesson and saw it as a real challenge to try to improve their financial position. Thank you for providing such a relevant and worthwhile resource. The students enjoy the format and develop better financial literacy skills at the same time." Moira (Qld)

Financial Basics Foundation
making financial futures brighter

Operation Financial Literacy and ESSI Money are provided by the Foundation at no cost to schools and charities throughout Australia. This strategy to educate young Australians about sound financial management would not be possible without the generous and continuing support of Collection House, our founding corporate partner.

By using best practice, relevant information and community engagement principles, the Foundation works with educators and our corporate partners to ensure that our materials are assessed and updated regularly.

Two new developments include the production of an e-newsletter which incorporates structured teaching topics and activities, and regularly scheduled Teacher Forums for professional development and resource sharing. These will be incorporated as part of the suite of programs and resources that the Foundation offers to support teachers.

The Foundation will continue to expand its work and deliver financial education in the community sector by working with community groups that work with disadvantaged young people. The Foundation will provide its teaching materials and knowledge to create initiatives that facilitate financial literacy and capacity building.

The Foundation has begun consultation to investigate the opportunities for the development of our programs as accredited staff training tools. Expanding staff knowledge and equipping them with relevant tools for their work environment will benefit our corporate partners and other organisations.

For more information about the Financial Basics Foundation, Operation Financial Literacy or ESSI Money, go to www.financialbasics.org.au

## Learning for Life

Collection House is entering its fifth year supporting the Learning for Life program for disadvantaged children. The Smith Family is responsible for implementing this comprehensive program linking disadvantaged children with education and learning programs, opportunities, support, and connects them with Australian's who have the capacity, skills and resources to help.

Collection House continues to support four students offering them the opportunity to develop through literary support, mentoring, tutoring and personal development initiatives supplied by the program. We intend to continue the contribution to this very worthwhile program as part of our commitment to social community responsibility.

# Corporate Governance Statement

## 1. Introduction

This statement relates to the year under review.

### a. Date of statement

This Statement reflects our corporate governance framework, policies and procedures which have been in place since 1 January 2008 and which were reviewed and re–endorsed by the Collection House Limited Board on 25 August 2010.

### b. Access to information on the website

This Corporate Governance Statement, and the documents referred to in the Statement, are available for viewing on our website in the corporate governance section (unless otherwise stated) at 'www.collectionhouse.com.au'.

## 2. Our approach to corporate governance

### a. Framework and approach to corporate governance

Our approach to corporate governance is based on a set of values and behaviours that underpin everyday activities, ensures transparency and fair dealing, and protects stakeholder interests. The Board continues to review this framework and our practices to ensure that we meet the interests of our stakeholders.

This approach includes a commitment to the highest standards of governance and the revised 'Corporate Governance Principles and Recommendations' which our Board sees as fundamental to shareholder and market confidence and to the sustainability of our business and performance.

### b. Compliance with the ASXCGC's Principles and Recommendations

The ASX Listing Rules require listed entities, such as our Company, to include a statement in their Annual Report disclosing the extent to which they have followed the twenty seven (27) ASXCGC Principles and Recommendations (ASXCGC's Recommendations) during the reporting period, identifying any recommendations that have not been followed and providing reasons for that variance.

We believe that our corporate governance practices comply with the ASXCGC's Principles and Recommendations, other than:

- Recommendations 2.1 and 2.2 – relate to independence. Our reasoning on independence and an explanation for our variance on the ASXCGC's Recommendations 2.1 and 2.2 are set out in section 3(e) of this Statement;
- Recommendation 2.4 – establishment of a nominations committee. Our reasoning and an explanation for our variance with ASXCGC's Recommendation 2.4 are set out in sections 3(j) and 4(a) of this Statement; and
- Recommendation 4.2 – establishment of an audit and risk management committee comprising at least three members. Our reasoning and an explanation for our variance with ASXCGC's Recommendation 4.2 are set out in section 4(a) of this Statement.

A checklist summarising our compliance with the ASXCGC's Recommendations is on our website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendation 2.1, 2.2 and 2.6*

## 3. The Board of Directors

### a. Membership and expertise of the Board

Directors' membership, period of office held, experience and shareholdings are provided in greater detail on pages 23 to 25 of the Directors' Report contained in the 2010 Annual Report.

*ASXCGC's Recommendations 2.6*

### b. Board role and responsibility

The role and responsibilities of the Board are formalised in the Board Charter. The Charter also defines the matters that are reserved for the Board and its Committees, and those that the Board has delegated to management.

The Board is accountable to shareholders for our performance, and the Board's responsibilities include:

- providing strategic direction and approving significant corporate strategic initiatives;
- providing input into, and approval of, management's development of corporate strategy and performance objectives;
- reviewing and approving business plans;
- overseeing and monitoring the financial and non financial key performance indicators;
- Board performance and composition;
- Board and executive leadership selection;
- succession planning for the Board and executives;
- enhancing and protecting the brand and reputation of the Company;
- setting MD/CEO and Non-executive Director remuneration;
- considering and approving our half-yearly and annual financial statements;
- selecting and recommending to shareholders the appointment of the external auditor;
- approving our risk management strategy and various risk management frameworks and monitoring their effectiveness;
- corporate responsibility – considering the social, ethical and environmental impact of our activities, setting standards and monitoring compliance;
- maintaining a direct and ongoing dialogue with relevant regulators in Australia and ensuring that the market and our shareholders and other investors are continuously informed of material developments; and
- determining the scope of delegated authorities.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in section 4 of this Statement.

The Board has delegated to Executive Management, responsibility for:

- developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- making recommendations for the appointment of Executive Management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for Executive Management roles;
- developing our annual budget plan and managing day-to-day operations within the budget plan;
- maintaining effective risk management frameworks;
- keeping the Board and market fully informed about material developments; and
- managing day-to-day operations in accordance with standards for social, ethical and environmental practices, which have been set by the Board.

*ASXCGC's Recommendation 1.1*

### c. Board size and composition

The Board considers that the optimum number of Directors is between six and eight, with Independent Non-executive Directors, comprising the majority of the Board.

As at 30 June 2010, there were two Non-independent Non-executive Directors, three Independent Non-executive Directors and one Executive Director on our Board. Our Constitution sets a maximum of ten Directors. The Chairman of the Board is non-executive, separate and independent of the role of the MD/CEO.

Until 30 October 2009, the Nominations Committee assessed the Boards' composition and size, and from time to time recommended to the Board changes to the Board's composition and size and the skills required to discharge the Board's duties, having regard to our business mix, financial position and strategic direction, including specific qualities or skills that the Nominations Committee believed was necessary for one or more of the Directors to possess.

From 30 October 2009, the Board assesses its composition and size together with the skills required to discharge the Board's duties, having regard to our business mix, financial position and strategic direction, including specific qualities or skills that the Board believes are necessary for one or more of the Directors to possess.

*ASXCGC's Recommendation 2.1*

### d. The Chairman

The Board elects one of the Non-executive Directors to be Chairman.

The Chairman, John Pearce, is a Non-executive Director. He has been a Director of the Company since 9 April 1993 and Chairman since 25 June 2009. The Chairman is a member of the Remuneration Committee.

The Chairman, John Pearce, and the Deputy Chairman, Dennis Punches are considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of an Independent Director. However, the Board considers that for the reasons set out in section 3(e), both John Pearce and Dennis Punches have extensive experience and professionalism which allows them to exercise quality, unfettered and independent judgment on all relevant issues falling within the scope of the role of Chairman and Deputy Chairman of the Board. Dennis Punches was the Chairman of the Nominations Committee until 30 October 2009.

*ASXCGC's Recommendation 2.2*

### e. Director independence

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment. Materiality is assessed on a case-by-case basis by reference to each Director's individual circumstances rather than by applying general materiality thresholds.

Directors must disclose any interests or relationships, including any related financial or other details, to the Board to determine whether the relationship could, or could reasonably be perceived to, materially interfere with the exercise of a Director's unfettered and independent judgment.

The Board considers that until 30 June 2010, a majority of the Board is not independent. However, the Board considers that the individuals on the Board can, and do exercise quality, unfettered and independent judgment in the best interests of the Company, on all relevant issues. Directors who have a conflict of interest in relation to a particular item of business must, and do, absent themselves from the Board meeting before commencement of discussion on the topic.

In addition to ensuring that the Board has a broad range of necessary skills, knowledge, and experience to govern the Company and understand the challenges that the Company faces, the Board considers that its membership should represent an appropriate balance between Directors with experience and knowledge of the Company and Directors with an external perspective.

The Board also considers that its size should be conducive to effective discussion and efficient decision-making. The Board believes that its current composition meets these requirements.

The Nominations Committee Charter and the Directors' Charter respectively, disclose a process for the selection and appointment of new Directors and the re-election of incumbent Directors. The former Nominations Committee Charter and the Directors' Charter are available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

# Corporate Governance Statement

### Exceptions to ASXCGC's Recommendations

*2.1 A majority of the Board should be Independent Directors*

As at 30 June 2010, of our Board, three Directors are considered not to be independent in accordance with Recommendation 2.1. These Directors are John Pearce (Chairman appointed 25 June 2009), Dennis Punches (Deputy Chairman appointed 25 June 2009) and Tony Aveling (MD/CEO).

Due only to their respective substantial shareholdings in the Company, John Pearce and Dennis Punches are not classed as Independent Directors. The Board maintains however, that their individual and combined industry experience and knowledge of international and domestic trends in the collection industry are invaluable to the Company. Directors' experience and shareholdings are provided in greater detail on pages 23 to 25 of the Directors' Report in the 2010 Annual Report.

*2.2 and 2.4 The Chairperson should be an Independent Director*

While the Chairman of the Board, John Pearce and the Deputy Chairman, Dennis Punches, are not classed as independent (Recommendations 2.2 and 2.4), their experience and knowledge of the industry, both individually and collectively, coupled with their ability to lead, have enabled both of them to be, and continue to be, a valuable and effective Chairman and Deputy Chairman respectively of the Board and in the case of Dennis Punches, a member of the Remuneration Committee and Chairman of the Nominations Committee until 30 October 2009, with a scope well beyond that of other candidates, at either a national or international level.

As noted, Tony Aveling is not deemed to be independent by virtue of his role as MD/CEO of the Company. Tony Aveling retired as MD/CEO on 31 July 2010. Matthew Thomas was appointed CEO effective as and from 1 August 2010. Mr Thomas is not a Director of the Company.

Notwithstanding, the Board does not consider there are any matters that may materially interfere with the exercise by John Pearce, Dennis Punches and Tony Aveling (before 31 July 2010) of unfettered and independent judgment.

*ASXCGC's Recommendations 2.1, 2.4 and 2.6*

### f. Avoidance of conflicts of interest by a Director

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duties as Directors of the Company and their other interests and duties.

In accordance with our Constitution, all Directors are required to disclose any actual or potential conflict of interest on appointment as a Director and are required to keep these disclosures up to date.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on matters in respect of which they have a conflict.

Our Constitution and Code of Conduct for Directors and Senior Executives are available from our website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendation 3.1*

### g. Meetings of the Board and their conduct

The Board has scheduled meetings each year and meets whenever necessary between scheduled meetings to deal with specific matters needing attention.

The Chairman, with input from the MD/CEO and the Company Secretary, establishes meeting agendas for assessing our coverage of financial, strategic and major risk areas, throughout the year. The Directors have the opportunity to review meeting materials in advance. Directors are always encouraged to participate with a robust exchange of views and to bring their independent judgments to bear on the issues and decisions at hand.

Details of meetings attended by Directors during the year are reported on page 25 of the Directors' Report in the 2010 Annual Report.

### h. Succession planning

Until 30 October 2009, the Board considered Director succession in conjunction with the Nominations Committee. Together they were responsible for developing and implementing succession planning for Non-executive Directors, taking into account the challenges and opportunities facing us and the skills and expertise which are likely to be needed on the Board today and in the future.

From 30 October 2009, the Board became responsible for Director succession. The Board is responsible for developing and implementing succession planning for Non-executive Directors, taking into account the challenges and opportunities facing us and the skills and expertise which is likely to be needed on the Board today and in the future.

The Board is responsible for MD/CEO succession planning, for approving the MD/CEO financial and non-financial performance objectives and for evaluating the performance of the MD/CEO against those objectives.

The MD/CEO is actively involved with Executive Management succession. The MD/CEO oversees the process of objective setting for Executive Management and monitors the performance of Executive Management against those objectives.

*ASXCGC's Recommendation 1.2*

### i. Review of Board and Committee performance

The Board undertakes an annual review of its performance and of the performance of the Chairman, individual Directors and Board Committees.

The performance review process is facilitated internally, and can include interviews with Directors and written surveys of Directors, Executive Management and the Company Secretary and General Counsel. These reviews are conducted in accordance with the Company's performance evaluation process for Directors and Executive Management. The Chairman formally discusses the results with individual Directors and Committee chairs.

The Chairman is reviewed by his fellow Directors adjudging his performance and contributions to the Board, Board discussions, leadership, and in guiding and assisting the Board to comply with its charter.

A performance evaluation of the Directors and Senior Executives consistent with the approach above has occurred during the reporting period.

*ASXCGC's Recommendations 2.5, 2.6 and 8.1*

### j. Nomination and appointment of new Directors

Until 30 October 2009, the Board had a Nominations Committee. From 30 October 2009, the Board absorbed the Nominations Committee's role, responsibilities and functions. During the reporting period, the Nominations Committee and the Board used the process for the selection and appointment of new Directors contained in the Directors' Charter when considering and making recommendations for nominations of new Directors to the Board.

A summary of the Directors' Charter and the former Nominations Committee Charter are available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

New Directors receive a letter of appointment, which sets out their duties, the terms and conditions of appointment including expected term of appointment, remuneration and the expectations of the role. This letter conforms with ASXCGC's Principles and Recommendations.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next Annual General Meeting (AGM). Shareholders are provided with relevant background information on the candidates for election.

The Board reviews the appointment criteria contained in the Directors' Charter from time to time and makes recommendations concerning the re-election of any Director by shareholders.

*ASXCGC's Recommendation 2.4*

### k. Board access to information and advice

All Directors have unrestricted and unfettered access to Company records and information and receive regular detailed financial and operational reports from Executive Management to enable them to carry out their duties.

The Chairman and other Non-executive Directors regularly consult with the MD/CEO, the CFO, Company Executives, the Company Secretary and General Counsel. In addition, Directors may consult with, and request additional information from, any of our employees.

The Board collectively, and each Director individually, has the right to seek independent professional advice, at the Company's expense, to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in the Chairman's absence, Board approval may be sought.

*ASXCGC's Recommendation 2.1 and 2.6*

### l. Company Secretary

Our Company Secretary is Michael Watkins, who combines his role as Company Secretary and as General Counsel of the Company. Michael is a Legal Practitioner Director of Jones King Lawyers Pty Ltd, a wholly owned subsidiary of the Company.

Michael joined us in 2000 as General Counsel and was appointed to his present role as Company Secretary and General Counsel in December 2006 with responsibility for the management and delivery of company secretarial, legal and governance advice and support to the Board, executive and business. Responsibilities for the secretariat function include providing advice to Directors and officers on corporate governance and regulatory matters, developing and implementing our governance framework, coordinating the completion and dispatch of the Board and Committee Meeting agendas and papers, and giving practical effect to the Board's and the Committees' decisions.

Prior to Michael's current appointment, he practised commercial law in private practice from 1978 and was a partner in his own Brisbane CBD law firm from 1980, until accepting the appointment as General Counsel of the Company in 2000.

All Directors have access to advice from the Company Secretary and General Counsel at any time.

## 4. Board Committees

### a. Board Committees and membership

During the reporting year, we had three standing Board Committees:

- The Audit and Risk Management Committee;
- The Nominations Committee; and
- The Remuneration Committee.

The Committee Charters (available on our website) describe their roles and responsibilities, as approved by the Board.

As the Company had Director retirements during the reporting year, the table overleaf indicates which Directors held Committee memberships and the period of time that they served on the relevant Committee.

# Corporate Governance Statement

| Committee | Director | | | | | Retired Directors | | |
|---|---|---|---|---|---|---|---|---|
| | John Pearce | Dennis Punches | Bill Kagel | Tony Coutts | Kerry Daly<br>*Appointed Director 30 October 2009* | Barrie Adams<br>*Retired Directorship 30 October 2009* | Bill Hiller<br>*Retired Directorship 30 October 2009* | Barry Connelly<br>*Retired Directorship 30 October 2009* |
| **Audit and Risk Management Committee** | | | | Independent Director | Chairman and Independent Director<br>*Appointed to Committee 30 October 2009* | Chairman and Lead Independent Director<br>*Retired from Committee 30 October 2009* | Independent Director<br>*Retired from Committee 30 October 2009* | |
| **Nominations Committee**<br>**Discontinued 30 October 2009** | | Chairman and Non-independent Director<br>*Committee Discontinued 30 October 2009* | | | | | Independent Director<br>*Committee Discontinued 30 October 2009* | Independent Director<br>*Committee Discontinued 30 October 2009* |
| **Remuneration Committee** | Non – independent Director<br>*Retired from Committee 30 October 2009* | Non-independent Director | Chairman and independent Director<br>*Retired as Chairman 30 October 2009* | Chairman and Independent Director<br>*Appointed Chairman 30 October 2009* | Independent Director<br>*Appointed to Committee 30 October 2009* | Lead Independent Director<br>*Retired from Committee 30 October 2009* | | |

Attendances of Directors at Committee meetings are set out on page 25 in the Directors' Report of the 2010 Annual Report.

*ASXCGC's Recommendations 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1 and 8.2*

### Exceptions to the ASXCGC's Recommendations

The Directors, taking into consideration the revised nature, size and composition of the Board, and that the Company is not an entity that trades in the top 300 of the S&P All Ordinaries Index, resolved, in regards to the Nominations Committee, that:

- the role, responsibilities and functions of the Nominations Committee be absorbed by the Board as a whole;
- the Board considers that it is best placed to deal with the nomination, appointment and evaluation of Directors; and
- the members of the Board have sufficient industry experience, knowledge and technical expertise to discharge the Nominations Committee's mandate effectively.

From 30 October 2009, the Board, by discontinuing the Nominations Committee and absorbing its role, responsibilities and functions, is not compliant with ASXCGC's Recommendation 2.4. However, the Board considers that given the revised nature, size and composition of the Board; the allocation of the scarce Director resources; and that it is ultimately responsible for the role, responsibilities and functions undertaken by the Nominations Committee, it is best placed to deal with the nomination, appointment and evaluation of Directors and considers that the efficiencies previously gained from having a Nominations Committee, no longer exist.

*ASXCGC's Recommendation 2.4.*

At the AGM on 30 October 2009, the Directors, Barrie Adams (Chairman and Lead Independent Director), Bill Hiller and Barry Connelly did not seek re-election.

The Directors, taking into consideration the revised nature, size and composition of the Board, and that the Company is not an entity that trades in the top 300 of the S&P All Ordinaries Index, resolved, in regards to the Audit and Risk Management Committee (the ARMC), that while:

- from 1 July 2009 to 30 October 2009, the ARMC was composed of only Independent Non-executive Directors;
- effective from 30 October 2009, the membership of the Committee should be reduced to two Independent Non-executive Directors with sufficient industry experience, knowledge and

- technical expertise to discharge the ARMC's mandate effectively;
- effective from 30 October 2009, Kerry Daly was appointed to the ARMC;
- effective from 30 October 2009, Kerry Daly was appointed Chairman of the ARMC; and
- Tony Coutts continued as a member of the ARMC.

The ARMC from 30 October 2009, did not consist of three Independent Non-Executive Directors in accordance with Recommendation 4.2.

The current membership structure of the ARMC is not compliant with ASXCGC's Recommendation 4.2. However, the Board considers that the current members of Kerry Daly, Chairman and Tony Coutts both being independent non executive directors with relevant industry experience and knowledge of domestic trends in the collection industry, are sufficient in number, independence, technical expertise and skills to properly discharge their roles and responsibilities effectively as committee members of the ARMC.

*ASXCGC's Recommendation 4.2.*

### b. Committee procedures

*Composition and independence of the Committees*

Committee members are chosen for the skills, experience and other qualities they bring to the Committees.

*Operation of the Committees and reporting to the Board*

During the year, the Board Committees meet at least annually, and at other times as necessary. Each Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The MD/CEO is invited to attend all Committee meetings, except where the MD/CEO has a material personal interest in a matter being considered. Executive Management and other selected employees are invited to attend Committee meetings as necessary.

*How the Committees report to the Board*

At the next Board meeting following each Committee meeting, the Board is given an oral report by the Chair of each Committee. In addition, all Committee minutes are tabled at Board meetings.

*How Committees' performance is evaluated*

The performance of Committees is discussed and reviewed initially within each Committee and then reviewed as part of the Board's performance review. The performance of each Committee member (other than the MD/CEO) is evaluated as part of the annual review of each Director.

*ASXCGC's Recommendation 2.5, 4.1, 4.2, 4.4, 7.1, 7.2, 7.4, 8.1, 8.2 and 8.3*

### c. Audit and Risk Management Committee

*Role of the Committee*

The Audit and Risk Management Committee operates in accordance with its Board approved charter, a copy of which is available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

The Audit and Risk Management Committee oversees the risk profile and approves our risk management framework within the context of the risk-reward strategy determined by the Board. The Committee monitors the alignment of our risk profile with our risk appetite. The Committee oversees how we manage the risks which are relevant to our operations.

The determination of the risk-reward strategy includes recommendations from the Audit and Risk Management Committee, the MD/CEO and Executive Management on the parameters of our risk-reward profile and appropriate strategy.

Our Board shares oversight responsibility for risk management with the Audit and Risk Management Committee.

The Audit and Risk Management Committee, oversees all matters concerning:

- integrity of the financial statements and financial reporting systems;
- making recommendations to the Board for the appointment of the external auditor;
- external auditor's qualifications, performance, independence and fees;
- oversight and performance of the internal audit function;
- compliance with financial reporting and related regulatory requirements;
- reviews and approves the frameworks for managing our market, operational and compliance risk;
- determines, approves and reviews the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the MD/CEO and Executive Management;
- monitors the risk profile, performance, capital levels, exposures against limits and management and control of our risks;
- monitors changes anticipated for the economic and business environment and other factors considered relevant to our risk profile;
- reviews and monitors any related party transactions and assesses their propriety;
- oversees the development and ongoing review of appropriate policies that support our frameworks for managing risk;
- reviews significant issues that may be raised by internal audit as well as the length of time and action taken to resolve such issues; and
- reviews our approach to corporate governance.

In fulfilling its responsibilities, the Audit and Risk Management Committee:

- receives regular reports from management, the internal and external auditors;
- meets with the internal and external auditors at least twice a year, or more frequently, if necessary;
- reviews the processes the MD/CEO and CFO have in place to support their certifications to the Board;

# Corporate Governance Statement

- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors and the internal auditor at least twice a year without Executive Management being present; and
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the Committee or the Chairman of the Board.

The Audit and Risk Management Committee met on 6 occasions during the reporting year.

The Audit and Risk Management Committee regularly updates the Board about its activities.

*ASXCGC's Recommendations 4.1, 4.2, 4.3, 4.4, 7.1 and 7.2*

### d. Nominations Committee

*Role of the Committee*

Until 30 October 2009, the Company had a Nominations Committee. The Nominations Committee operated in accordance with its then Board approved charter, a summary of which is available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

The Nominations Committee assisted the Board in fulfilling its oversight responsibility to shareholders. The Board now as a whole assesses the desirable competencies of the Board members, reviews Board succession plans, provides a framework for the evaluation process of the performance of the Board, individual Directors, and makes recommendations for the appointment and removal of Directors. The Nominations Committee and now the Board was and is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual Directors;
- conducting an annual review of, and conclude on, the independence of each Director;
- succession planning for the Board including developing eligibility criteria for nominating Directors;
- developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- recommending appointment of Directors to the Board; and
- making recommendations on Board composition and appointments.

The Boards' policy for the appointment of Directors is to select candidates whose skills, expertise, qualifications, networks, and knowledge of the industry in which the Company operates and other potential markets into which it may expand, complement those of existing Board members.

When selecting new Directors for recommendation, the Board reviews the prospective Directors' CVs, meets with them and speaks with their referees and others who have previously worked with them to assess their suitability.

The Board has adopted a Director's Letter of Appointment covering the matters referred to in Principle 1 of the ASX Corporate Governance Guidelines ensuring Directors clearly understand their corporate duties and responsibilities.

*ASXCGC's Recommendation 2.4*

### e. Remuneration Committee

*Role of the Committee*

The Remuneration Committee operates in accordance with its Board approved charter, a copy of which is available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

The Remuneration Committee assists the Board by reviewing and approving its remuneration policies and practices. The principal function of the Committee is to assist the Board in ensuring that the Company's remuneration levels are appropriate and sufficient to attract and retain the Directors and key executives needed to run the Company. The Remuneration Committee:

- reviews and approves executive remuneration policy;
- reviews and makes recommendations to the Board on the performance of the MD/CEO against the MD/CEO's corporate goals and objectives;
- makes recommendations to the Board on the remuneration of the MD/CEO;
- makes recommendations to the Board on the remuneration of Non-executive Directors, taking into account the shareholder approved fee pool;
- approves contracts and remuneration packages for positions reporting directly to the MD/CEO;
- considers and evaluates the performance of Executive Management when making remuneration determinations and otherwise as required;
- monitors organisational structure and succession planning strategies;
- evaluates and reviews current industry standards and practices;
- reviews and makes recommendations to the Board on equity-based plans;
- approves all performance recognition expenditure; and
- oversees general remuneration practices across the Group.

The Remuneration Committee also reviews and makes recommendations to the Board concerning the recruitment, retention, termination, and succession planning policies and procedures for the MD/CEO and for Executive Management positions reporting directly to the MD/CEO. This process was undertaken during the reporting year.

The Committee meets at least annually with additional meetings being convened as required. The Committee has access to Executive Management of the Company and may consult independent remuneration consultants to benchmark our reward practices and levels against market practice, where it considers this necessary in order to effectively discharge its responsibilities.

*ASXCGC's Recommendations 1.2, 1.3 and 8.1*

## 5. Managing Director and Chief Executive Officer and Chief Financial Officer assurance

The Board receives regular reports about our financial condition and operational results as well as that of our controlled entities. The MD/CEO and CFO annually provide formal statements to the Board, that in all material respects confirms:

- the financial records of the Company for the financial year have been properly maintained in that they:
  - are complete and present;
  - correctly record and explain its transactions and financial position and performance;
  - enable true and fair financial statements to be prepared and audited; and
  - are retained for seven years after the transactions covered by the records are completed;
- the financial statements and notes required by the accounting standards for the financial year comply with the accounting standards;
- the financial statements and notes for the financial year give a true and fair view of the Company's and consolidated entities' financial position and of their performance;
- any other matters that are prescribed by the Corporations Act regulations as they relate to the financial statements and notes for the financial year are satisfied;
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively; and
- the statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

*ASXCGC's Recommendation 4.4 and 7.3*

## 6. Promoting ethical and responsible behaviour

### a. Our Principles for Doing Business and Code of Conduct

Our Code of Conduct and Philosophy sets out the principles that govern our conduct and the behaviours that stakeholders can expect from us.

The Principles apply without exception to all Directors, executives, management and employees, and are aligned to our core values. Our Code of Conduct and Philosophy sets out the seven foundation principles, namely:

- act with honesty and integrity;
- respect the law and act accordingly;
- respect confidentiality and do not misuse information;
- act professionally, ethically and honourably;
- act as a team;
- manage conflicts of interest responsibly; and
- strive to be a good corporate citizen with the highest standards of integrity, ethics, practice, privacy and security.

A summary of the Company's Code of Conduct for Directors and Senior Executives and our Philosophy are available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendations 3.1 and 3.3*

### b. Internal policies and procedures

In addition to our Code of Conduct and Philosophy, we are committed to external regulator guidelines, such as the Australian Securities and Investments Commission and Australian Competition and Consumer Commission Debt Collection Guideline: for collectors and creditors.

We also have a number of key policies to manage our compliance and human resource requirements. There is a range of guidelines, communications and training processes and tools to support these policies. These tools include an online learning module titled 'Code of Conduct' which incorporates training for a range of key compliance requirements. Individual business units also have systems and procedures in place to support Company policies and procedures.

*ASXCGC's Recommendations 3.1 and 3.3*

### c. Concern reporting and whistleblowing

All employees are encouraged to bring any concerns or problems to the attention of management, the human resources team or the compliance team. This includes activities or behaviours that may not be in accord with our Philosophy, the Code of Conduct, Securities Trading Policy, other policies, or other regulatory requirements or laws.

In 2005, the Board introduced a Whistleblower Protection Policy that specifically outlines procedures for dealing with allegations of improper conduct. Concerns can be raised in a number of ways, including in writing, anonymously through the Company's online whistleblower reporting system, or by telephone.

Any concerns that are reported are assessed and handled by the Disclosure Coordinator, in conjunction with the Company's Company Secretary and General Counsel.

The Company does not tolerate known or suspected incidents of fraud, corrupt conduct, adverse behaviour, illegal activities or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

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Nor does the Company tolerate taking reprisals against those who come forward to disclose such conduct. The Company will take all reasonable steps to protect employees who make such disclosures from any reprisal or detrimental action following the disclosure.

*ASXCGC's Recommendations 3.1 and 3.3*

### d. Securities trading policy

Directors and employees are restricted from dealing in our shares if they are in possession of inside information.

To highlight the importance of compliance with these requirements and to ensure high standards of conduct, we have a Securities Trading Policy which applies to all employees. Additional restrictions apply for Directors and any employees who, because of their seniority or the nature of their position, come into contact with key financial or strategic information about the Company all or most of the time (Prescribed Employees). Those restrictions limit the periods in which the Directors and Prescribed Employees can trade in our shares or other company securities.

Further, Directors and Prescribed Employees are not permitted to trade in closed periods which operate for two months immediately preceding the half yearly results and the full year results respectively.

The periods in which Directors and Prescribed Employees can trade (Trading Windows) commence two business days after the release of our half year and full year results (Trading Window - normally 60 days) and after our Annual General Meeting (Trading Window - normally 30 days).

Directors and Prescribed Employees must also notify the Chairman or the MD/CEO in writing of their intention to trade during those periods and confirm they do not have any inside information. Any trading remains subject to legal obligations to not trade while in the possession of inside information.

The Corporate Counsel Division monitors the trading of the Company's shares by Directors and Prescribed Employees on a daily basis.

Directors and Prescribed Employees may only deal in the Company securities outside of these times with the express prior approval of the Chairman or the Managing Director.

A summary of the Securities Trading Policy is available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendations 3.2 and 3.3*

## 7. Remuneration framework

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive Management team by remunerating Directors and key executives fairly and appropriately in accordance with market conditions and reflective of their contribution.

The expected outcomes of this remuneration philosophy are:

- retention and motivation of key executives;
- attraction and retention of quality management to the Company; and
- performance incentives which allow executives to share the rewards of the success of the Company.

The Board is keen to encourage equity holdings by Directors and employees to align their interests with those of shareholders. Many employees have participated in the Company's various share and option plans from time to time.

In February 2007, the shareholders approved certain share options in favour of the MD/CEO as part of his employment agreement. Details of the share options are set out in the Remuneration Report in the 2010 Annual Report.

In June 2007, certain share options were issued to eligible senior employees under an Executive Share Option Plan. Details of the Executive Share Option Plan were presented, ratified and approved by the shareholders at the Annual General Meeting of the Company in October 2007.

The Board considers that the composition of executive remuneration and equity related staff incentive plans are the domain of the Board and the MD/CEO, subject to meeting the Company's statutory and ASX Listing Rule disclosure obligations.

In June 2008, subject to shareholder approval, the Board agreed to vary the MD/CEO's remuneration and employment agreement to include certain additional share options. The MD/CEO's variation of his remuneration and employment agreement and the grant of additional share options were approved by shareholders at the Company's Annual General Meeting in October 2008. Details of the share options are set out in the Remuneration Report in the 2010 Annual Report.

In June 2008, certain additional share options were issued to eligible senior employees under the Executive Share Option Plan previously approved by shareholders at the Annual General Meeting of the Company in October 2007. Details of the share options are set out in the Remuneration Report in the 2010 Annual Report.

No Directors participate in share plans. Non-executive Directors receive only cash compensation and reimbursement of expenses for their services.

For additional information about the Company's remuneration practices and details relating to Directors' and executives' remuneration during the year, refer to pages 28 and 29 of the Directors' Report in the 2010 Annual Report.

Details of our remuneration framework are set out in the Remuneration Report in the 2010 Annual Report.

*ASXCGC's Recommendations 8.1, 8.2 and 8.3*

## 8. Market disclosure

We are committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

In achieving these standards, we have a Board approved Continuous Disclosure Policy, which governs how we communicate with our shareholders and with the investment community.

The policy reflects the ASX continuous disclosure obligations and spells out that information which a reasonable person would expect to have a material effect on the price of the Company's securities, that must be immediately disclosed, subject to certain exceptions.

The Board is primarily responsible for:

- making decisions on what should be disclosed publicly under the market disclosure policy, and for developing and maintaining relevant guidelines, including guidelines on information that may be price sensitive; and
- for ensuring compliance with the continuous disclosure requirements of the listing rules of the ASX, relevant securities and corporations legislation, and overseeing and coordinating information disclosure to regulators, analysts, brokers, shareholders, the media and the public.

All market announcements are released to the ASX first in time.

We also publish on our website the Annual Reports, profit announcements, presentations, notices of meetings and media releases.

A copy of the Continuous Disclosure Policy is available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendations 5.1, 5.2 and 6.1*

## 9. Shareholder communications and participation

We are also committed to giving all shareholders comprehensive, timely and equal access to information about our activities so that they can make informed investment decisions.

The Board aims to ensure that shareholders are informed of all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- the Annual Report which is distributed to all shareholders via the Company's website or a printed version upon request (other than those who elect not to receive it);
- the Annual General Meeting and other shareholder meetings called to obtain approval for Board action, as appropriate;
- making available all information released to the Australian Securities Exchange on the Company's website immediately following confirmation of receipt by the ASX;
- ensuring all press releases and investor presentations issued by the Company are posted on the Company's website as soon as it is disclosed to the ASX;
- encouraging active participation by shareholders at shareholder meetings;
- actively encouraging shareholders to provide their email address to facilitate more timely and effective communication with shareholders at all times;
- contacting shareholders who have provided their email addresses directly to provide details of upcoming events of interest; and
- encouraging all shareholders who are unable to attend general meetings to communicate issues or ask questions by writing to the Company.

The Board approved Shareholder Communications Guidelines are available from the corporate governance section of the Company's website at 'www.collectionhouse.com.au'.

*ASXCGC's Recommendations 6.1 and 6.2*

## 10. Health and safety

The Company aims to provide and maintain a safe and healthy work environment within all operations.

The Company acts to meet this commitment by implementing work practices and procedures throughout the Company that comply with the relevant regulations governing workplace health and safety.

Employees are expected to take all practical measures to ensure a safe and healthy working environment in keeping with their defined responsibilities and the relevant regulations.

*ASXCGC's Recommendations 3.1 and 3.3*

## 11. International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS.

The Company adopted the Australian equivalents to IFRS in its consolidated entity's financial statements since 31 December 2006.

*ASXCGC's Recommendations 3.1 and 3.3*

## 12. Carbon Emissions Trading

Collection House is committed to reducing its energy consumption and carbon emissions. In this regard, Collection House has reviewed its business operations and obligations under the prevailing Environmental legislation to determine whether it is required to establish a Carbon Emissions Trading Scheme.

Based on the prescribed reporting thresholds contained in the current law, Collection House does not have an obligation to report to the relevant regulators as its energy consumption and carbon emissions do not exceed the specified thresholds.

Notwithstanding, Collection House has taken and continues to take initiatives to reduce its carbon footprint.

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Collection House Limited and the entities it controlled for the financial year ended 30 June, 2010.

## Directors

The following persons were directors of Collection House Limited during the whole of the financial period and up to the date of this report, unless stated otherwise:

- John Pearce
- Dennis Punches
- Tony Aveling (retired as Managing Director and Chief Executive Officer 31 July 2010)
- Tony Coutts
- Bill Kagel
- Kerry Daly (appointed 30 October 2009)
- Barrie Adams (Lead Independent Director) (retired 30 October 2009)
- Bill Hiller (retired 30 October 2009)
- Barry Connelly (retired 30 October 2009)

See pages 23, 24 and 25 for information on the directors.

## Principal activities

The principal activities of the Group during the financial year were the provision of debt collection services and receivables management throughout Australasia and the purchase of debt by its special purpose subsidiary Lion Finance Pty Ltd.

## Dividends paid to members during the financial year

| | 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Final ordinary dividend for the year ended 30 June, 2009 of 2.6 cents fully franked (2008 – 2.5 cents fully franked) per fully paid share paid on 27 November 2009. | 2,530 | 2,433 |
| Interim ordinary dividend for the year ended 30 June, 2010 of 2.8 cents fully franked (2009 - 2.3 cents fully franked) per fully paid share paid on 26 March, 2010. | 2,725 | 2,238 |

In addition to the above dividends, since the end of the financial year, the directors have recommended the payment of a final fully franked ordinary dividend of $2.9 million (3.0 cents per fully paid share) to be paid on 26 November 2010 out of retained profits and a positive net asset balance as at 30 June 2010.

## Review of operations

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

| | Revenue | | Results | |
|---|---|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Collection Services | 33,006 | 31,835 | 6,370 | 6,470 |
| Account Asset Management | 69,468 | 69,754 | 19,567 | 19,667 |
| Intersegment eliminations | 873 | 348 | 899 | 356 |
| Discontinued operations | - | 219 | - | 219 |
| | 103,347 | 102,156 | 26,836 | 26,712 |
| Unallocated revenue less unallocated expenses | | | (15,014) | (15,734) |
| Profit before income tax expense | | | 11,822 | 10,978 |
| Income tax expense | | | (2,899) | (3,124) |
| Profit for the year | | | 8,923 | 7,854 |
| Less: Profit / (loss) attributable to minority interest | | | - | - |
| Profit / (loss) attributable to members of Collection House Limited | | | 8,923 | 7,854 |

Comments on the operations and the results of those operations are as follows:

### Results

Net profit after tax for the year was $8.9 million compared to $7.9 million for the corresponding period.

Total income from continuing operations ordinary activities was steady at $103 million (2009: $102 million).

Revenue from the Account Asset Management segment was maintained at $69.4 million (2009: $69.7 million), and revenue from commission collections increased by 3.7% to $33.0 million, in spite of difficult trading conditions during the year. Profit for the year was improved by a combination of the small increase in revenue combined with a disciplined approach to debt acquisition and close management of expenses in line with the difficult economic conditions.

EBITDA for the year (before fair value adjustments and impairment) was up by 2.7 % to $49.1 million (2009: $47.8 million).

Basic earnings per share excluding discontinued operations ("EPS") were 9.2 cents (2009: 7.9 cents).

The increased profit attributable to members is due to maintaining revenue in spite of the withdrawal of Government stimulatory measures, careful management of the expense base during the recent economic difficulties and a disciplined approach to purchasing new debt ledgers.

### Assets and liabilities

Consolidated net assets have increased from $87.9 million to $91.9 million predominantly due to lower levels of borrowings at 30 June 2010.

During the reporting period new debt portfolios were purchased for A$27.9 million and NZ$2.7 million in the Australian and New Zealand markets respectively, which was funded from operating cash flow and an increase in long term bank debt.

### Cash flow

The consolidated net cash flow from operating activities (including discontinued operations) decreased by 2.0% to $39.8 million (2009: $40.6 million) mainly due to an increase in interest paid combined with an increase in overseas taxes paid which will be refunded in 2010-2011 financial year.

The Board has confirmed its confidence in the Group's current and future trading position. The directors have recommended the payment of a final fully franked ordinary dividend as stated on page 20.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

a) in Australia, the Group purchased new debt portfolios for A$27.9 million;

b) in New Zealand, the Group purchased new debt portfolios for NZ$2.7 million.

## Matters subsequent to the end of the financial year

### 1. Dividend

The directors have recommended the payment of a final fully franked ordinary dividend of $2.9 million (3.0 cents per fully paid share) to be paid on 26 November 2010 out of retained profits and a positive net asset balance as at 30 June 2010.

### 2. Managing Director/Chief Executive Officer

On 31 July 2010, Tony Aveling, Managing Director and Chief Executive Officer retired and ceased being an employee and Director of Collection House Limited.

From 1 August 2010, Matt Thomas became the Chief Executive Officer of Collection House Limited. Mr Thomas is not a Director of Collection House Limited.

Other than the matters discussed above, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

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

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

## Likely developments and expected results of operations

There were no likely developments in the operations of the Group that have not been finalised at the date of this report.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation

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

## Information on directors as at 30 June 2010

| **John Pearce** | **Chairman. Age 65** |
|---|---|
| Experience | Co-founder of Collection House Limited. Appointed to the Board in April 1993. In April 2003 returned to former position of Managing Director & Chief Executive Officer which had been held from mid 1998 until December 2002. Stepped down as Chief Executive Officer effective 30 June 2005 and was appointed Managing Director and Deputy Chairman effective 1 July 2005. Resigned as Managing Director on 26 October 2006. Re-elected Director 26 October 2007. Appointed Chairman of the Board effective 25 June 2009. Member of the International Fellowship of Certified Collectors. Chairman of Financial Basics Foundation 2002 to 2007. A Board Member of The Rutherglen Cemetery Foundation. Director, Brisbane Lions Foundation. |
| Special responsibilities | Mr Pearce retired from the Remuneration Committee on 30 October 2009. |
| Interest in shares and options (direct & indirect) | 11,461,015 ordinary shares in Collection House Limited |

| **Dennis Punches** | **Deputy Chairman. Age 74** |
|---|---|
| Qualifications | BSC |
| Experience | Appointed to the Board in July 1998, and in 2000 was appointed as Chairman of Collection House Limited. Re-elected Director 26 October 2007. Stepped down as Chairman to become Deputy Chairman effective 25 June 2009. Former director of Attention LLC Inc, Analysis and Technology Inc, and co-founder and former Chairman of Payco American Corporation. Co-Chairman of the International Collectors Group and a Trustee for Wisconsin's Carroll College. |
| Special responsibilities | Mr Punches was the Chairman of the Nominations Committee until it was discontinued on 30 October 2009. Mr Punches remained a Member of the Remuneration Committee. |
| Interest in shares and options (direct & indirect) | 17,907,384 ordinary shares in Collection House Limited |

| **Tony Coutts** | **Independent Director. Age 51** |
|---|---|
| Experience | General Manager of Collection House Limited from 1995 to 1998. Appointed an Executive Director in September 1998 with executive responsibilities as Director of Sales. Non-Executive Director from 1 July 2006 (re-elected 26 October 2007 to 30 June 2009). 18 years in the finance and insurance industry (Australian Guarantee Corporation Ltd). 14 years in the debt collection industry, the last 12 of which were spent at Collection House. |
| Special responsibilities | Mr Coutts is a Member of the Audit and Risk Management Committee and was appointed Chair of the Remuneration Committee on 30 October 2009. |
| Interest in shares and options (direct & indirect) | 4,464,600 ordinary shares in Collection House Limited |

| **Bill Kagel** | **Independent Director. Age 73** |
|---|---|
| Experience | Appointed to the Board in February 2000. Over 40 years debt collection industry experience. Co-founder and Senior Vice President of Payco American Corporation, USA and former Director of Outsourcing Solutions Inc. |
| Special responsibilities | Mr Kagel is a member of the Remuneration Committee (retired as Chair 30 October 2009). |
| Interest in shares and options (direct & indirect) | 951,269 ordinary shares in Collection House Limited |

| **Kerry Daly** | **Independent Director. Age 52** |
|---|---|
| Experience | Mr Daly has 30 years experience in the financial services sector. Mr Daly was appointed a Director of Collection House Limited on 30 October 2009. During the period 1987 to December 2000, Mr Daly was Managing Director and Chief Executive Officer of The Rock Building Society Limited where he initiated its demutualisation and was responsible for its ASX listing. From January 2001, he was appointed an Executive Director of fixed interest brokerage and investment banking business Grange Securities Limited. When Grange Securities Limited was acquired in February 2007, Mr Daly was appointed Managing Director of the Australian operations. |
| Special responsibilities | Mr Daly was appointed as Chairman of the Audit and Risk Management Committee on 30 October 2009. |
| Interest in shares and options (direct & indirect) | 140,000 ordinary shares in Collection House Limited |

| **Tony Aveling** | **Managing Director and Chief Executive Officer. Age 66** |
|---|---|
| Qualifications | SFFin, FAIM, FAICD |
| Experience | 47 years in the financial services industry including 35 years at Westpac Banking Corporation. Senior positions included Chief Executive Business and Private Banking, Managing Director & Chief Executive Officer Australian Guarantee Corporation Limited, and General Manager Europe. 3 years as Chief Executive Officer Australian Bankers' Association. Is a Senior Fellow of the Financial Services Institute of Australasia (SFFin), a Fellow of the Australian Institute of Management (FAIM), a Fellow of the Australian Institute of Company Directors (FAICD), and a graduate of the Advanced Management Program of the Harvard Business School. Honorary Governor Science Foundation for Physics within the University of Sydney. Resigned as Director of Global MoneyLine Limited (March 2008).<br>Tony Aveling retired as Managing Director and Chief Executive Officer on 31 July 2010. |
| Interest in shares and options (direct & indirect) | 505,000 ordinary shares in Collection House Limited<br>400,000 Options |

| **Barry Connelly** | **Independent Director. Age 70** |
|---|---|
| Qualifications | BJ |
| Experience | Appointed to the Board in June 2003. Charter member of the Board of NASDAQ listed company, First Advantage, Board Member of privately held Microbilt Corp. Of Kenesaw, GA. Appointed Director of Huaxia D & B China in November 2008. Retired President of the International Consumer Data Industry Association and former member of the Texas House of Representatives. Past board member of the Merchants Research Council, Charter Bank Willowbrook. Mr Connelly retired as a Director on 30 October 2009. |
| Interest in shares and options (direct & indirect) | 77,143 ordinary shares in Collection House Limited |

| **Bill Hiller** | **Independent Director. Age 71** |
|---|---|
| Experience | Appointed to the Board in June 2003. 41 years experience in the automotive finance industry including as General Manager - Automotive Finance for St George Bank Limited. Mr Hiller retired as a Director on 30 October 2009. |
| Special responsibilities | Mr Hiller retired as a member of the Audit and Risk Management Committee on 30 October 2009. |
| Interest in shares and options (direct & indirect) | 50,000 ordinary shares in Collection House Limited |

| Barrie Adams | Lead Independent Director. Age 64 |
|---|---|
| Qualifications | PSM, FCPA |
| Experience | Appointed to the Board in November 2002 and Chairman of the Audit & Risk Management Committee in January 2003. Chairman of Financial Basics Foundation and associated companies. Director of Ingeus Limited. Resigned as Director of Steel Foundations Limited and associated companies and Nuplant Ltd (June 2009). Resigned as Director of Pro Super Holdings (October 2006). Resigned as a Member of Nominations Committee (October 2007). Mr Adams retired as a Director on 30 October 2009. |
| Special Responsibilities | Mr Adams retired as the Chairman of the Audit and Risk Management Committee and as a member of the Remuneration Committee on 30 October 2009. |

## Company secretary

The Company Secretary to 30 June, 2010 was Michael Watkins. Mr Watkins was appointed to the position of Company Secretary on 21 December 2006. Before joining Collection House Limited, Michael Watkins was in practice as a commercial lawyer from 1978 and as a partner in his own Brisbane CBD law firm from 1980, until accepting the appointment as General Counsel of the Group in 2000. Mr Watkins undertakes the combined roles of General Counsel and Company Secretary for the Group.

## Meetings of directors

The numbers of meetings of the Group's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

| | | | Meetings of committees | | | |
|---|---|---|---|---|---|---|
| 2010 | Full meetings of directors | | Audit and Risk Management | | Remuneration | |
| | A | B | A | B | A | B |
| Dennis Punches | 11 | 11 | ** | ** | 2 | 2 |
| John Pearce | 11 | 11 | ** | ** | 1 | 1 |
| Barrie Adams | 3 | 3 | 2 | 2 | 1 | 1 |
| Tony Coutts | 11 | 11 | 6 | 6 | 1 | 1 |
| Bill Kagel | 11 | 11 | ** | ** | 2 | 2 |
| Kerry Daly | 8 | 8 | 4 | 4 | ** | ** |
| Tony Aveling | 11 | 11 | ** | ** | ** | ** |
| Barry Connelly | 3 | 3 | ** | ** | ** | ** |
| Bill Hiller | 3 | 3 | 2 | 2 | ** | ** |

A Number of meetings attended

B Number of meetings held during the time the director held office or was a member of the committee during the year

** Not a member of the relevant committee

The roles, responsibilities and functions of the Nominations Committee previously formed on 25 February 2004 were absorbed by the full Board, effective 30 October 2009. There was no meeting of the Nominations Committee between 1 July 2009 and 30 October 2009.

## Remuneration report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information.

The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

## A Principles used to determine the nature and amount of remuneration (audited)

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

In consultation with key members of the Board who have many years industry operational experience and the General Manager Human Resources, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key nonfinancial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of ''at risk'' rewards.

### Directors Fees

The current base fees were last reviewed with effect 25 August 2009. The Chairman continues to receive a non-executives director's fee of $50,000 per annum plus superannuation and is not drawing any additional fees for being Chairman of the Group. The Chairman intends to use his director's fees to purchase shares in Collection House Limited.

### Non-Executive Directors

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Non-executive directors do not receive share options.

Payments are allowed for additional responsibilities for Board Chairmanship, Deputy Chairmanship, the Lead Independent Director role, for membership of Board Committees and for Board Committee Chairmanship. Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The following fees have applied:

| FEES | From 1 July 2009 to 24 August 2009 | From 25 August 2009 to 30 June 2010 |
|---|---|---|
| **Base fees** | | |
| Chair | $50,000 | $50,000 |
| Other non-executive directors | $50,000 | $50,000 |
| **Additional fees** | | |
| Audit and Risk Management Committee Chair | $40,000 | $30,000 |
| Audit and Risk Management Committee Member | $20,000 | $15,000 |
| Lead Independent Director | $10,000 | $5,000 |

For further information in relation to Directors remuneration, refer to pages 28 and 29.

## Executive Director

On 31 July 2010, Tony Aveling, Managing Director and Chief Executive Officer retired and ceased being an employee and Director of Collection House Limited. From 1 August 2010, Matt Thomas became the Chief Executive Officer of Collection House Limited. Mr Thomas is not a Director of Collection House Limited.

A summary of Mr Aveling's remuneration package is set out in section C of the Remuneration Report on page 30.

## Executive pay

The executive pay and reward framework has three components:

- base pay and short term incentive (STI);
- long term incentives through participation in the Executive Share Option Plan, and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

## Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed nonfinancial benefits at the executives' discretion. Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

## Short Term Incentive

A portion of an executive's pay is by way of an "at risk" bonus. This is subject to satisfactory completion of set objectives and payable at the discretion of the MD/CEO in consultation with the Board.

## Long Term Incentive

Certain eligible employees are offered long term incentives via the Executive Share Option Plan. See section D of the remuneration report for details.

## Benefits

The major benefit provided to executives and eligible employees is the ability to participate in the Executive Share Option Plan.

## Retirement allowances for Directors

There are no retirement allowances paid to nonexecutive directors, in line with recent guidance on non executive directors' remuneration.

## Retirement Benefits for Executives

There are no retirement benefits made available to executives, other than as are required by statute or by law.

## B Details of remuneration (audited)

### Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Collection House are set out in the following tables.

The key management personnel of the Group includes Tony Aveling as MD/CEO and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- M. Thomas - Chief Operating Officer (appointed Chief Executive Officer on 1 August 2010)
- A. Ralston - Chief Financial Officer
- M. Watkins - General Counsel and Company Secretary
- K. Lynam - General Manager – Human Resources
- M. Voysey - Chief Marketing Officer (Michael Voysey was employed by the Group from 16 September 2009 to 16 July 2010).

In addition, the following persons must be disclosed under the *Corporations Act 2001* as they are among the highest remunerated Group executives:

- T. Aveling - MD/CEO (retired as Managing Director and Chief Executive Officer on 31 July 2010)
- M. Thomas - Chief Operating Officer (appointed Chief Executive Officer on 1 August 2010)
- A. Ralston - Chief Financial Officer
- M. Watkins - General Counsel and Company Secretary
- U. Danielian - Solicitor Director of Jones King Lawyers Pty Ltd (a subsidiary of the Group)

Key management and highest paid personnel of the Group for the year ended 30 June 2010 is as follows:

| | | Short Term Benefits | | | | Post Employment Benefits | Share Based Payments | |
|---|---|---|---|---|---|---|---|---|
| Name | | Salary & Fees $ | Cash Bonus $ | Non-Monetary Benefits $ | Other $ | Superannuation (1) $ | Options $ | Total $ |
| **DIRECTORS** | | | | | | | | |
| J. Pearce | 2010 | 50,000 | - | - | - | 4,500 | - | 54,500 |
| *Chairman* | 2009 | - | - | - | - | - | - | - |
| D. Punches | 2010 | 50,000 | - | - | - | - | - | 50,000 |
| *Deputy Chairman* | 2009 | 50,000 | - | - | - | - | - | 50,000 |
| T. Coutts | 2010 | 65,981 | - | - | - | 5,938 | - | 71,919 |
| *Non- Executive Director* | 2009 | 62,308 | - | - | - | 5,608 | - | 67,916 |
| B. Kagel | 2010 | 50,000 | - | - | - | - | - | 50,000 |
| *Independent Director* | 2009 | 50,000 | - | - | - | - | - | 50,000 |
| K. Daly | 2010 | 52,615 | - | - | - | 4,735 | | 57,350 |
| *(appointed 30 October 2009) Independent Director* | 2009 | - | - | - | - | - | - | - |
| T. Aveling[2] | 2010 | 519,231 | 500,000 | 3,950 | 3,949 | 91,731 | 100,364 | 1,219,225 |
| *Executive Director* | 2009 | 500,000 | 500,000 | - | 70,300 | 96,327 | 225,656 | 1,392,283 |
| B. Adams[3] | 2010 | 35,635 | - | - | - | 3,207 | - | 38,842 |
| *Lead Independent Director* | 2009 | 100,000 | - | - | - | 9,000 | - | 109,000 |

| Name | | Short Term Benefits | | | | Post Employment Benefits | Share Based Payments | |
|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees $ | Cash Bonus $ | Non-Monetary Benefits $ | Other $ | Superannuation (1) $ | Options $ | Total $ |
| B. Connelly[3] | 2010 | 29,167 | - | - | - | - | - | 29,167 |
| *Independent Director* | 2009 | 56,667 | - | - | - | - | - | 56,667 |
| B. Hiller[3] | 2010 | 25,981 | - | - | - | 2,338 | - | 28,319 |
| *Independent Director* | 2009 | 70,000 | - | - | - | 6,300 | - | 76,300 |
| **GROUP EXECUTIVES** | | | | | | | | |
| M. Thomas | 2010 | 260,890 | 55,000 | 3,950 | - | 28,430 | 12,564 | 360,834 |
| *Chief Operating Officer* | 2009 | 245,103 | 46,000 | 5,638 | - | 26,127 | 33,192 | 356,060 |
| A. Ralston | 2010 | 230,515 | 49,000 | 3,950 | - | 25,084 | 10,037 | 318,586 |
| *Chief Financial Officer* | 2009 | 216,672 | 40,000 | 5,638 | - | 23,100 | 26,554 | 311,964 |
| M. Watkins | 2010 | 253,610 | 48,000 | 3,950 | - | 27,073 | 10,037 | 342,670 |
| *General Counsel and Company Secretary* | 2009 | 241,821 | 40,000 | 5,638 | - | 25,292 | 26,554 | 339,305 |
| K. Lynam | 2010 | 131,027 | 26,000 | 3,950 | - | 14,132 | 6,273 | 181,382 |
| *General Manager – Human Resources* | 2009 | 121,638 | 22,000 | 5,638 | | 12,855 | 16,596 | 178,727 |
| M. Voysey | 2010 | 171,783 | 25,000 | 2,375 | | 17,710 | - | 216,868 |
| *Chief Marketing Officer (appointed 16 September 2009)* | 2009 | - | - | - | - | - | - | - |
| Ulysses Danielian | 2010 | 192,240 | - | 7,512 | - | 17,230 | - | 216,982 |
| *Solicitor Director (Jones King Lawyers Pty Ltd)* | 2009 | 184,299 | 18,000 | | | 18,207 | | 220,506 |

(1) Superannuation of 9% was paid on cash bonuses. The superannuation on the bonuses has been included in the superannuation figure in the table above.

(2) Tony Aveling retired as Managing Director and Chief Executive Officer on 31 July 2010.

(3) Barrie Adams, Bill Hiller and Barry Connelly retired from the Board effective 30 October 2009.

The relative proportions of remuneration that are fixed and linked to performance and share based options are as follows:

| Name | % Performance based 2010 | % Performance based 2009 | % Fixed 2010 | % Fixed 2009 |
|---|---|---|---|---|
| 1. T. Aveling | 53.3 | 55.4 | 46.7 | 44.6 |
| 2 M. Thomas | 20.1 | 22.4 | 79.9 | 77.6 |
| 3. A. Ralston | 19.9 | 23.4 | 80.1 | 76.6 |
| 4. M. Watkins | 18.2 | 20.7 | 81.8 | 79.3 |
| 5. K. Lynam | 19.1 | 22.4 | 80.9 | 77.6 |
| 6. M. Voysey | 12.6 | - | 87.4 | - |

## C Service Agreements (audited)

Remuneration and other terms of employment for the MD/CEO and other key management personnel are also formalised in service agreements. Except as otherwise stated, all contracts with executives may be terminated early by either party with three months notice. Major provisions of the agreements relating to remuneration are set out below.

| | | |
|---|---|---|
| T. Aveling<br>*MD/CEO* | Deed of Variation of Employment Agreement | On 26 June 2008, the Collection House Board agreed to vary the MD/CEO's remuneration package, subject to shareholder approval. This approval was given at the AGM on 31 October 2008 |
| | Annual base salary | $500,000 plus superannuation |
| | Living away from home | Up to $2,000 per week (ceased on 27 February 2009) |
| | Performance cash bonus | Maximum level of $500,000 plus superannuation |
| | (Objectives as agreed by the Board) | At the year end, the Board was provided with the financial and non-financial information relating to the MD/CEO's performance. The key objective related to Collection House profitability. Supporting objectives covered leadership, sales, stakeholder relationships, recruitment, trade debtors, organisational structure, succession planning, funding, premises, book quality, compliance and regulatory obligations. Based on this information, the Board determined the level of STI to be made to the MD/CEO. For the year ended 30 June 2010, the Board determined that the MD/CEO's STI payment would be $500,000 plus superannuation which is 100% of the payment target specified in his contract. The payment was calculated based on performance against objectives and the Board's exercise of discretion |
| | Options | 2,000,000 options granted in 2007<br>2,000,000 options granted in 2008. See note 35 for material terms. |
| M. Thomas<br>*Chief Operating Officer (appointed CEO from 1 August 2010)* | Annual Base Salary | $283,000 inclusive of superannuation for the year ended 30 June 2010 |
| | Performance cash bonus | $59,950 inclusive of superannuation was paid for the year ended 30 June 2010 |
| | Options | 250,000 options granted in 2007<br>250,000 options granted in 2008. See note 35 for further details. |
| A. Ralston<br>*Chief Financial Officer* | Annual Base Salary | $247,000 inclusive of superannuation for the year ended 30 June 2010 |
| | Performance cash bonus | $49,440 inclusive of superannuation was paid for the year ended 30 June 2010 |
| | Options | 200,000 options granted in 2007<br>200,000 options granted in 2008. See note 35 or further details. |
| M. Watkins<br>*General Counsel and Company Secretary* | Annual Base Salary | $272,000 inclusive of superannuation for the year ended 30 June 2010 |
| | Performance cash bonus | $52,320 inclusive of superannuation was paid for the year ended 30 June 2010 |
| | Options | 200,000 options granted in 2007<br>225,000 options granted in 2008. See note 35 for further details. |
| K. Lynam<br>*General Manager – Human Resources* | Annual Base Salary | $146,000 inclusive of superannuation for the year ended 30 June 2010 |
| | Performance cash bonus | $27,250 inclusive of superannuation was paid for the year ended 30 June 2010 |
| | Options | 125,000 options granted in 2007<br>150,000 options granted in 2008. See note 35 for further details. |
| M. Voysey<br>*Chief Marketing Officer* | Annual Base Salary | $239,820 inclusive of superannuation for the year ended 30 June 2010 |
| | Performance cash bonus | $25,000 inclusive of superannuation was paid for the year ended 30 June 2010 |
| | Options | Nil options granted |

## D Share based compensation (audited)

### Options

Options have been granted to Tony Aveling as MD/CEO under his Employment Agreement (as varied). Options have also been granted to certain eligible employees under the Collection House Executive Share Option Plan.

The terms and conditions of all options mentioned above affecting remuneration in the previous, this or future reporting periods are set out in note 35 of the financial statements.

Options granted under the Executive Share Option Plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of Collection House.

Details of options over ordinary shares in Collection House Limited provided as remuneration to each director of Collection House Limited and Group Executives are set out below. Further information on the options is set out in note 35 of the financial statements.

| | Number of options granted during the year | | No of options vested during the year | |
|---|---|---|---|---|
| Name | 2010 | 2009 | 2010 | 2009 |
| 1. T. Aveling | - | 2,000,000 | - | 400,000 |
| 2. A. Ralston | - | 200,000 | - | 40,000 |
| 3. M. Thomas | - | 250,000 | - | 50,000 |
| 4. M. Watkins | - | 225,000 | - | 40,000 |
| 5. K. Lynam | - | 150,000 | - | 25,000 |

The assessed fair value at grant date of options granted to the individuals is allocated over the period from grant date to vesting date, and the amount is included in the remuneration table in this report. Fair values at grant date are independently determined using a modified binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

### Shares provided on exercise of remuneration options

Details of ordinary shares in Collection House Limited provided as a result of the exercise of remuneration options to each director of Collection House Limited and Group Executives are set out below.

| | Date of exercise of options | Number of ordinary shares issued on exercise of options during the year | | Amounts paid per ordinary share | |
|---|---|---|---|---|---|
| Name | | 2010 | 2009 | 2010 | 2009 |
| Directors of Collection House Limited | - | - | - | - | - |
| Group Executives | - | - | - | - | - |

No shares issued on the exercise of options during the period.

## E Additional information (audited)

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Group performance.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year. Details of the relationship between the remuneration policy and Group's performance over the last 5 years is detailed below.

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Net profit after tax ($m's) | $6.08 | $3.81 | $12.39 | $7.85 | $8.92 |
| Dividends Declared | 2 cents unfranked | 2 cents franked | 4.7 cents franked | 4.9 cents franked | 5.8 cents franked |
| Share price commenced | $1.41 | $1.03 | $0.78 | $0.465 | $0.47 |
| Share price ended | $0.975 | $0.75 | $0.46 | $0.49 | $0.75 |
| Basic Earnings per share (including discontinued operations) | 6.2 cents | 3.9 cents | 12.7 cents | 8.1 cents | 9.2 cents |

### Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the table on pages 28 and 29, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. No options will vest unless the vesting conditions are met (see note 35 for details), hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

| | Cash bonus | | Options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Paid | Forfeited % | Year granted | Vested % | Forfeited % | Lapsed $ | Financial years in which options may vest (subject to certain qualifying hurdles). Refer to note 35 | Minimum total value of grant yet to vest | Maximum total value of grant yet to vest |
| 1. T. Aveling | 100.0 | 0.0 | 2007 | 20% | | | 2009 - 2011 | NIL | NIL |
| | | | 2009 | - | - | | 2011 - 2013 | NIL | 99,267 |
| 2. A. Ralston | 83.3 | 16.7 | 2007 | 20% | - | | 2009 - 2011 | NIL | NIL |
| | | | 2009 | - | - | - | 2011 - 2013 | NIL | 9,927 |
| 3. M.Thomas | 85.2 | 14.8 | 2007 | 20% | | | 2009 - 2011 | NIL | NIL |
| | | | 2009 | | | | 2011 - 2013 | NIL | 12,408 |
| 4. M. Watkins | 75.5 | 24.5 | 2007 | 20% | | | 2009 - 2011 | NIL | NIL |
| | | | 2009 | | | | 2011 - 2013 | NIL | 11,168 |
| 5. K. Lynam | 81.5 | 18.5 | 2007 | 20% | | | 2009 - 2011 | NIL | NIL |
| | | | 2009 | | | | 2011 - 2013 | NIL | 7,445 |

### Loans to directors and executives

Information on loans to Directors and Group Executives, including amounts, interest rates and repayment terms are set out in note 28 to the financial statements.

## Shares under option

Long term incentives are provided to certain eligible employees via the Executive Share Option Plan, see note 35 for further information. Unissued ordinary shares of Collection House Limited under option at the date of this report are as follows:

| | Date options granted | Number under option | Issue price of shares | No of shares issued 2010 | Expiry date |
|---|---|---|---|---|---|
| MD/CEO Options | 12 March 2007 | 2,000,000 | $1.0327 | nil | Refer to note 35 |
| | 31 October 2008 | 2,000,000 | $0.4927 | nil | Refer to note 35 |
| Executive Share Option Plan | 15 June 2007 | 1,250,000 | $1.0327 | nil | Refer to note 35 |
| | 18 July 2008 | 1,437,500 | $0.4927 | nil | Refer to note 35 |

# F Additional information (unaudited)

## Insurance of officers

During the financial year, the Group paid a premium of $35,114 to insure the directors and secretaries of the Group and the executives of each of the divisions of the Group.

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

## Proceedings on behalf of the Group

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

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

## Non-audit services

The Board of Directors, in accordance with advice from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. During the year, the Group's auditors have performed no other non-audit services in addition to their assurance duties. All other assurance services are subject to the corporate governance procedures adopted by the Group.

Details of the amounts paid to the auditors of the Group, Lawler Hacketts Audit, are set out below.

| | Consolidated | |
|---|---|---|
| **DESCRIPTION** | **30 June 2010 $** | **30 June 2009 $** |
| 1. Audit services, Lawler Hacketts Audit | 137,000 | 137,000 |
| Audit and review of the financial reports and other audit work under the Corporations Act 2001. | | |
| Total remuneration for audit services | 137,000 | 137,000 |
| 2. Other assurance services, Lawler Hacketts Audit | 82,000 | 82,050 |
| Total remuneration for audit-related services | 82,000 | 82,500 |
| TOTAL REMUNERATION | 219,000 | 219,050 |

## Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 35.

## Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Auditor

Lawler Hacketts Audit continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

COLLECTION HOUSE LIMITED

**John Pearce**
Chairman

25 August 2010

# Auditor's Independence Declaration

lawler hacketts chartered accountants

**AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**
**TO THE DIRECTORS OF COLLECTION HOUSE LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010, there have been:

a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) No contraventions of any applicable code of professional conduct in relation to the audit.

Lawler Hacketts

**LAWLER HACKETTS AUDIT**

**Liam Murphy**
**Partner**

**Brisbane, 25 August 2010**

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# Income Statement

for the year ended 30 June 2010

| | | Consolidated | |
|---|---|---|---|
| | Notes | 30 June 2010 $'000 | 30 June 2009 $'000 |
| **Revenue from continuing operations** | 6 | 103,347 | 101,959 |
| Restructuring costs | | - | (655) |
| Depreciation and amortisation expense | 7 | (2,618) | (2,295) |
| Other expenses | | (4,174) | (3,698) |
| Employee expenses | | (34,873) | (34,071) |
| Direct collection costs | | (11,930) | (11,970) |
| Operating lease rental expense | | (3,280) | (3,779) |
| Fair value losses on other financial assets | | (29,879) | (30,265) |
| Finance costs | 7 | (4,771) | (4,467) |
| **Profit before income tax** | | 11,822 | 10,759 |
| Income tax expense | 8 | (2,899) | (3,059) |
| Profit from continuing operations | | 8,923 | 7,700 |
| Profit from discontinued operations | 9 | - | 154 |
| **Profit for the year** | | 8,923 | 7,854 |
| Profit is attributable to: | | | |
| Equity holders of Collection House Limited | | 8,923 | 7,854 |
| | | 8,923 | 7,854 |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 34 | 9.2 | 7.9 |
| Diluted earnings per share | 34 | 9.1 | 7.9 |
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 34 | 9.2 | 8.1 |
| Diluted earnings per share | 34 | 9.1 | 8.1 |

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

# Statement of Comprehensive Income

for the year ended 30 June 2010

| | Consolidated | |
|---|---|---|
| | **30 June 2010 $'000** | **30 June 2009 $'000** |
| **Profit for the year** | 8,923 | 7,854 |
| **Other comprehensive income** | | |
| Exchange differences on translation of foreign operations | (50) | 87 |
| **Total comprehensive income for the year** | 8,873 | 7,941 |
| Total comprehensive income for the year is attributable to: | | |
| Owners of Collection House Limited | 8,873 | 7,941 |
| | 8,873 | 7,941 |

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

# Balance Sheet

as at 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 459 | 584 |
| Receivables | 11 | 4,117 | 4,630 |
| Other financial assets at fair value through profit or loss | 12 | 35,234 | 29,999 |
| Other current assets | 13 | 1,358 | 996 |
| Total current assets | | 41,168 | 36,209 |
| **Non-current assets** | | | |
| Other financial assets at fair value through profit or loss | 12 | 111,251 | 116,917 |
| Property, plant and equipment | 14 | 6,572 | 6,917 |
| Intangible assets | 16 | 21,786 | 20,536 |
| Other non-current assets | 17 | 177 | 229 |
| Total non-current assets | | 139,786 | 144,599 |
| **Total assets** | | 180,954 | 180,808 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | 18 | 4,088 | 4,622 |
| Borrowings | 19 | 601 | - |
| Current tax liabilities | | 842 | 1,596 |
| Provisions | 20 | 2,095 | 2,000 |
| Total current liabilities | | 7,626 | 8,218 |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 66,900 | 69,700 |
| Provisions | 23 | 337 | 211 |
| Deferred tax liabilities | 22 | 14,219 | 14,719 |
| Total non-current liabilities | | 81,456 | 84,630 |
| **Total liabilities** | | 89,082 | 92,848 |
| **Net assets** | | 91,872 | 87,960 |
| **EQUITY** | | | |
| Contributed equity | 25 | 67,256 | 67,256 |
| Reserves | 26(a) | 294 | 171 |
| Retained profits | 26(b) | 24,322 | 20,533 |
| | | 91,872 | 87,960 |
| **Total equity** | | 91,872 | 87,960 |

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

# Statement of Changes in Equity

for the year ended 30 June 2010

| Consolidated | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to members of Collection House Limited | | | | | |
| **Balance at 1 July 2008** | | 67,256 | (324) | 18,668 | 85,600 | (1,318) | 84,282 |
| Profit for the year | | - | - | 7,854 | 7,854 | - | 7,854 |
| Exchange differences on translation of foreign operations | 26 | - | 87 | - | 87 | - | 87 |
| **Total comprehensive income for the year** | | - | 87 | 7,854 | 7,941 | - | 7,941 |
| Non-controlling interest on acquisition of subsidiary | 26 | - | - | (1,318) | (1,318) | 1,318 | - |
| Dividends provided for or paid | 26 | - | - | (4,671) | (4,671) | - | (4,671) |
| Employee share options - value of employee services | 26 | - | 408 | - | 408 | - | 408 |
| | | - | 408 | (5,989) | (5,581) | 1,318 | (4,263) |
| **Balance at 30 June 2009** | | 67,256 | 171 | 20,533 | 87,960 | - | 87,960 |

| Consolidated | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to members of Collection House Limited | | | | | |
| **Balance at 1 July 2009** | | 67,256 | 171 | 20,533 | 87,960 | - | 87,960 |
| Opening balance adjustment | | - | - | 121 | 121 | - | 121 |
| **Restated total equity at the beginning of the financial year** | | 67,256 | 171 | 20,654 | 88,081 | - | 88,081 |
| Profit for the year | | - | - | 8,923 | 8,923 | - | 8,923 |
| Exchange differences on translation of foreign operations | 26 | - | (50) | - | (50) | - | (50) |
| **Total comprehensive income for the year** | | - | (50) | 8,923 | 8,873 | - | 8,873 |
| Dividends provided for or paid | 26 | - | - | (5,255) | (5,255) | - | (5,255) |
| Employee share options - value of employee services | | - | 173 | - | 173 | - | 173 |
| | | - | 173 | (5,255) | (5,082) | - | (5,082) |
| **Balance at 30 June 2010** | | 67,256 | 294 | 24,322 | 91,872 | - | 91,872 |

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

# Cash Flow Statement

for the year ended 30 June 2010

| | Notes | Consolidated 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | 109,947 | 107,461 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (61,272) | (59,042) |
| | | 48,675 | 48,419 |
| Other sundry income | | - | 146 |
| Interest paid | | (4,771) | (5,203) |
| Income taxes refund / (paid) | | (4,151) | (2,744) |
| **Net cash inflow (outflow) from operating activities** | 37 | 39,753 | 40,618 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant & equipment | 14 | - | 23 |
| Payments for property, plant and equipment | | (2,777) | (2,877) |
| Payments for leasehold improvements | | (31) | (3,551) |
| Payments for purchased debt | | (29,448) | (34,715) |
| Payments for intangible assets | | (168) | (979) |
| **Net cash inflow (outflow) from investing activities** | | (32,424) | (42,099) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 21 | - | 8,600 |
| Repayment of borrowings | | (2,800) | - |
| Dividends paid to company's shareholders | 33 | (5,255) | (4,671) |
| **Net cash inflow (outflow) from financing activities** | | (8,055) | 3,929 |
| **Net increase (decrease) in cash and cash equivalents** | | (726) | 2,448 |
| Cash and cash equivalents at the beginning of the financial year | | 584 | (1,864) |
| Effects of exchange rate changes on cash and cash equivalents | | - | - |
| **Cash and cash equivalents at end of year** | 10 | (142) | 584 |

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

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Collection House Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

#### Compliance with IFRS

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

#### Historical cost convention

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

#### Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

#### Financial statement presentation

The Company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Collection House Limited (''parent entity'') as at 30 June 2010 and the results of all subsidiaries for the year then ended. Collection House Limited and its subsidiaries together are referred to in this financial report as the Company, the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the parent entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the parent entity controls another entity.

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

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

The Company applies a policy of treating transactions with minority interests as transactions with parties external to the Company. Disposals to minority interests result in gains and losses for the Company that are recorded in the preliminary income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

# 1 Summary of significant accounting policies (continued)

## (b) Principles of consolidation (continued)

Changes in the parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and do not pass through the Profit and Loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated preliminary income statement, preliminary statement of comprehensive income, statement of changes in equity and preliminary balance sheet respectively.

## (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

### Change in accounting policy

The Company has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The group has always disclosed segment information on the same basis as used for internal reporting purposes, and there was no impact from adopting this standard.

## (d) Foreign currency translation

### (i) Functional and presentation currency

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

### (ii) Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

## 1 Summary of significant accounting policies (continued)

### (d) Foreign currency translation (continued)

#### (iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

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

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax (GST) payable to the Australian Taxation Office. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenue.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

#### (i) Rendering of services

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

#### (ii) Sale of non current assets

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

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

Any related balance in the asset revaluation reserve is transferred to the capital profits reserve on disposal.

#### (iii) Dividends

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

Revenue from dividends from other investments is recognised when received.

#### (iv) Interest

Interest received is recognised as it accrues, taking into account the effective yield on the financial asset.

## 1 Summary of significant accounting policies (continued)

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (i) Tax consolidation legislation

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

The head entity, Collection House Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Collection House Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Refer note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### (g) Leases

Leases of property, plant and equipment where the Group as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 14). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

## 1 Summary of significant accounting policies (continued)

### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (k) Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. Trade receviables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the preliminary income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the preliminary income statement.

# 1 Summary of significant accounting policies (continued)

## (l) Financial assets

### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

### (i) Financial assets at fair value through profit or loss - Purchased debt ledgers (PDL's)

Purchased debt ledgers have been included in this category of financial assets as it is managed and its performance is evaluated on a fair value basis.

Purchased debt ledgers are initially recorded at cost (including incidental costs of acquisition) and thereafter at fair value in the balance sheet. In the absence of an active market the fair value of a particular ledger is determined based on a valuation technique. The valuation is based on the present value of expected future cash flows.

When the carrying value of a ledger is greater than the present value of its expected future cashflows the carrying amount is reduced to its recoverable amount (fair value), being the anticipated future cash flows discounted to present value.

Gains and losses arising from changes in the fair value of these ledgers are included in the income statement in the period in which they arise.

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

### (ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are initially measured at cost and included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The nominal value less credit adjustments of trade receivables are assumed to approximate their fair values. Loans and receivables are included in trade and other receivables in the balance sheet.

The Group assesses at each balance date whether there is objective evidence that loans and receivables are impaired.

## (m) Fair value estimation of financial assets and liabilities

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

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

Refer to Note 2 for further details of fair value determination.

## (n) Property, plant and equipment

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise these costs are expensed.

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

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

## 1 Summary of significant accounting policies (continued)

### (n) Property, plant and equipment (continued)

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

All assets, including intangibles other than goodwill, are depreciated / amortised using the straight-line method over their estimated useful lives taking into account estimated residual values with the exception of purchased debt which subject to fair value adjustments based upon the benefits to be derived from the asset.

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

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

| | |
|---|---|
| - Plant and equipment | 4-8 years |
| - Computer equipment | 3-5 years |
| - Leased plant and equipment | Term of Lease |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

### (o) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business/associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the company's investment in each primary reporting segment (note 4).

#### (ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 2 to 12 years.

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

#### (iii) Other intangible assets

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

## 1 Summary of significant accounting policies (continued)

### (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (q) Borrowings

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

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

Borrowings are removed from the preliminary balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

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

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

### (s) Provisions

Provisions for legal claims and service warranties are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as part of the expense related to the particular provision.

### (t) Employee benefits

#### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### (ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## 1 Summary of significant accounting policies (continued)

### (t) Employee benefits (continued)

#### (iii) Superannuation Plans

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

#### (iv) Share-based payments

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

Share-based compensation benefits are provided to employees other than the Chief Executive Officer via the Collection House Limited Executive Share Option Plan. Further details are set out in note 35.

Shares options granted after 7 November 2002 and vested after 1 January 2005.

The fair value of options granted under the Executive Share Option Plan and the CEO employment agreement is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

#### (v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

### (u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### (v) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 25).

## 1 Summary of significant accounting policies (continued)

### (v) Earnings per share (continued)

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the preliminary balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (x) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

#### (i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has assessed the impact of the standard, and has elected to early adopt it from 1 July 2010, on the basis that it has no material effect on the consolidated group.

#### (ii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Collection House Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will have no impact on the financial statements of the Company.

# 1 Summary of significant accounting policies (continued)

## (z) Parent entity financial information

The financial information for the parent entity, Collection House Limited, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

### (ii) Tax consolidation legislation

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

Further detail can be found at Note 1(f)(i) above.

### (iii) Financial guarantees

The parent entity has provided no financial guarantees in relation to loans and payables of subsidiaries.

# 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, aging analysis for credit risk and cashflow analysis to determine the risk associated with the Purchased Debt Ledger portfolio.

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

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

## (a) Market risk

### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NZ dollar.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

At 30 June 2010, had the Australian Dollar weakened/strengthened by 10% against the NZ Dollar with all other variables held constant, the impact for the year would have been immaterial to both profit for the year and equity.

### (ii) Price risk

The group is not exposed to price risk, as there are no subsidiary company investments in the consolidated results.

## 2 Financial risk management (continued)

### (iii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk from two sources – Trade interest rate risk and Investment interest rate risk.

*Trade interest rate risk*

As the Group has no significant interest bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's main trade interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently has no fixed rate borrowings. During 2010 and 2009, the Group borrowings at variable rate were denominated in Australian Dollars only.

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

Interest rate hedges and swaps are an available tool for managing interest rate risk within the group. If it is determined that it would be profitable and / or advantageous to the group, these tools will be used. No interest rate hedges or swaps are currently in place (2009: $Nil).

As at the reporting date, the Group had the following variable rate borrowings outstanding:

| | 30 June 2010 | | 30 June 2009 | |
|---|---|---|---|---|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | % | $'000 | % | $'000 |
| Bank overdrafts and bank loans | 4.8% | 66,900 | 6.0% | 69,700 |
| Net exposure to cash flow interest rate risk | | 66,900 | | 69,700 |

*Investment interest rate risk*

In addition the Group is exposed to Investment interest rate risk which arises from the significant investment in Purchased Debt Ledgers ("PDL"). A number of different types of risk arise from the PDL investments. All PDL risks are managed together as described below.

*Interest rate risk*

Group sensitivity

At 30 June 2010, if interest rates had changed by +/- 25 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been $118,000 lower/higher (2009 - change of 25 bps: $122,000 lower/higher), mainly as a result of higher/lower interest expense from net borrowings. Other components of equity would have been $118,000 lower/higher (2009 - $122,000 lower/higher) mainly as a result of an increase/decrease in cash not required for interest payments. Other financial assets and liabilities are not interest bearing and therefore are not subject to interest rate risk.

*Foreign exchange risk*

Sensitivity to changes in the exchange rate between AUD and NZD has been assessed within a range of -0.5% to +10.0% and has been found to be immaterial against group profits and equity.

*Other price risk*

As none of the financial assets or liabilities of the group are traded in financial markets, there is no other price risk in the Group.

## 2 Financial risk management (continued)

### (iv) Summarised sensitivity analysis

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

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| **Consolidated** | | **-25 bps** | | **+25 bps** | |
| **30 June 2010** | **Carrying amount $'000** | **Profit $'000** | **Equity $'000** | **Profit $'000** | **Equity $'000** |
| **Financial liabilities** | | | | | |
| Borrowings | 67,501 | 118 | 118 | (118) | (118) |
| **Total increase/ (decrease)** | | 118 | 118 | (118) | (118) |

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| **Consolidated** | | **-25 bps** | | **+25 bps** | |
| **30 June 2009** | **Carrying amount $'000** | **Profit $'000** | **Equity $'000** | **Profit $'000** | **Equity $'000** |
| **Financial liabilities** | | | | | |
| Borrowings | 69,700 | 122 | 122 | (122) | (122) |
| **Total increase/ (decrease)** | | 122 | 122 | (122) | (122) |

## (b) Credit risk

The Group is exposed to credit risk from two sources – Trade credit risk and Investment credit risk.

*Trade credit risk*

Trade credit risk is managed on a Group basis. Trade credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions.

The Group has no significant concentrations of trade credit risk. The Group has policies in place to ensure that the sales of products and services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one financial institution. (see note 38 for details)

*Investment credit risk*

In addition the group is exposed to Investment credit risk which arises from the significant investment in Purchased Debt Ledgers ("PDL"). A number of different types of risk arise from the PDL investments. All PDL risks are managed together as described below.

## 2 Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Finance Team aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. Cashflow is forecast on a day-to-day basis across the group to ensure that sufficient funds are available to meet requirements.

**Financing arrangements**

The Group had access to a $75,000,000 Multiple Option Facility with a temporary extension to $85,000,000 throughout the year (2009: $75,000,000). The facility, which was replaced in June 2010, was subject to meeting a number of financial undertakings. The undertakings were materially met at all times during both the current and prior years. The facility was replaced with a $85,000,000 Multiple Option Facility which expires on 1 July 2013. The new facility is subject to the same undertakings as the old facility was, and is subject to review at the end of its term.

The facility is made up of a Cash Advance option, a Commercial Bill option, an Overdraft option, and a Set-off option. The cash advance option or the commercial bill option can be drawn upon with 2 days notice to the finance provider, and the overdraft option or the set-off option may be drawn upon at any time. The allocation between the various options is at the discretion of the Group subject to the total not exceeding the $85,000,000 commitment from the finance provider. The overdraft and set-off options are repayable on demand, and the Commercial Bill and cash advance options are repayable at the end of the term.

The undertakings are reviewed by the Audit and Risk Management Committee each month, and are reported on to the finance provider quarterly. All companies within the group are required to notify the finance provider of any event of default as soon as it becomes aware of them.

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

Further details of the banking facility are set out in note 21.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| Group - At 30 June 2010 | Less than 6 months $'000 | 6 - 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Non-interest bearing | 4,088 | - | - | - | - | 4,088 | 4,088 |
| Variable rate | 479 | - | - | 66,900 | - | 67,379 | 67,379 |
| **Total non-derivatives** | 4,567 | - | - | 66,900 | - | 71,467 | 71,467 |

| Group - At 30 June 2009 | Less than 6 months $'000 | 6 - 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Non-interest bearing | 4,622 | - | - | - | - | 4,622 | 4,622 |
| Variable rate | - | - | 69,700 | - | - | 69,700 | 69,700 |
| **Total non-derivatives** | 4,622 | - | 69,700 | - | - | 74,322 | 74,322 |

## 2 Financial risk management (continued)

### (d) Fair value measurements

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

The fair value of financial instruments that are not traded in an active market (for example, purchased debt portfolios in the group) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are also used to determine fair value for the financial instruments.

The key assumption which underpins the valuation of Financial Instruments in the group is the recovery rate. Assumptions are made about the recovery rate based on experience and market conditions. Sensitivity of profit and equity to changes in the actual recovery rate achieved is set out in the sensitivity analysis below.

The carrying value less doubtful debts provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### Purchased Debt Ledgers

Other Financial Assets at Fair Value through the Profit and Loss as disclosed in the group entity represent investments in debt ledgers. To manage the interest rate and credit risks arising from investments in debt portfolios, the Group analyses the price to be paid for each tranche before it is purchased. Debt prices paid are determined by a bidding process in the market place, with each bidder determining the prices which they are prepared to pay based on their own analysis.

The price offered by the Group for any particular tranche of debt is determined based upon existing in-house knowledge of the tranche, macro-economic and micro-economic factors and the experience of senior management. In-house knowledge of a tranche exists if the tranche has been previously worked by the company on a commission basis.

Due to contractual restrictions on the company's ability to subsequently deal with the purchased debt portfolio, it is considered that there is not an active market in debt portfolios in which the company can participate.

#### Initial recognition value

The factors that determine the price paid for a particular tranche of debt are:

#### 1. The Face Value of the debt being purchased

The face value of debt is dependent upon the value of debt that the vendor is prepared to sell.

#### 2. The expected Recovery Rate of the debt being purchased

The expected recovery rate is the percentage of the face value of a debt that is expected to be recovered as a result of collection activity, and is based upon the company's historical experience with the particular tranche being purchased. Historical experience can vary from a detailed knowledge of the tranche if it has been previously worked by the company on a commission basis, to a general knowledge of the type of debt being purchased from a new vendor, and specific knowledge discovered as part of a pre-purchase due diligence process.

#### 3. The Price Multiple which can be obtained

The price multiple is the discount factor between the recoverable amount of the debt and the price which is paid for it. The discount factor is determined by the amount that the vendor is prepared to accept in exchange for the debt, and the amount that the company is able to pay to acquire the debt and achieve an acceptable profit margin.

#### Subsequent measurment of carrying value

After a tranche has been purchased, fair value adjustments are made against the carrying value in line with revenue collected against it. The carrying value is continuously reviewed to ensure that it is not in excess of fair value based upon a discounted cash flow (DCF) model. The inputs to the DCF model are the same as are used in the original purchase price calculation with actual results substituted for expected estimates. In this context the only variable is the recovery rate, as neither the face value nor the price multiple can change as a result of working a debt.

## 2 Financial risk management (continued)

### (d) Fair value measurements (continued)

### Amendments to AASB 7 Financial Instruments: Disclosure

As of 1 July 2009, Collection House Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The purchased debt ledger assets of the group are classified as Level 3 in the fair value measurement hierarchy. Details of the group's assets and liabilities measured and recognised at fair value are set out in Note 12.

**Summarised sensitivity analysis**

The following table summarises the sensitivity of the Group's financial assets at Fair Value through the Profit & Loss to the achieved recovery rate.

Based upon the experience of the 12 months ended 30 June 2010 and the Global Financial Crisis, the reasonably likely range for the sensitivity analysis has adjusted to +/- 4.08% in 2010 (2009: +/- 4.4%).

| | | Recoverability | | | |
|---|---|---|---|---|---|
| | | -4.08% | | +4.08% | |
| **30 June 2010** | **Carrying amount $'000** | **Profit $'000** | **Other Equity $'000** | **Profit $'000** | **Other Equity $'000** |
| **Financial assets** | | | | | |
| Financial assets at FVTPL | 146,485 | (911) | (911) | 911 | 911 |

| | | Recoverability | | | |
|---|---|---|---|---|---|
| | | -4.40% | | +4.40% | |
| **30 June 2009** | **Carrying amount $'000** | **Profit $'000** | **Other Equity $'000** | **Profit $'000** | **Other Equity $'000** |
| **Financial assets** | | | | | |
| Financial assets at FVTPL | 146,919 | (1,185) | (1,185) | 1,185 | 1,185 |

### (e) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Group finance facilities are a combination of overdraft and short term commercial bill facilities, all of which are on a variable interest rate basis. In the current relatively stable interest rate environment, this approach maximises available cash with minimal exposure to interest rate movements. All aspects of the financing arrangements, including interest rate structuring can be reviewed as required during the life of the facility.

## 3 Critical accounting estimates and judgements

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

### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (i) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions and the potential impact of changes to the assumptions.

#### (ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

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

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

#### (iv) Estimated fair value of other financial assets

At each reporting date the Group determines the fair value of financial assets in accordance with the accounting policy stated at 1(m). The calculation of impairment requires the use of assumptions.

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

#### (i) Employee benefits

Management judgment is applied in determining the key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries
- future on-cost rates
- experience of employee departures and period of service

#### (ii) Impairment of available-for-sale financial assets

The Company follows the guidance of AASB 139 *Financial Instruments: Recognition and Measurement* on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the underlying assets of the investee company.

#### (iii) Useful lives of property, plant and equipment

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

## 4 Segment information

### (a) Description of segments

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

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

**Contingent Collection Services**

- The earning of commissions on the collection of debts for clients;

**Account Asset Management**

- The collection of debts from client ledgers acquired by the Company;

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

| 2010 | Collection services $'000 | Account asset management $'000 | Intersegment eliminations/ unallocated $'000 | Total continuing operations $'000 | Discontinued operations (note 9) $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 32,996 | 69,460 | 547 | 103,003 | - | 103,003 |
| Intersegment sales | - | - | - | - | - | - |
| Other revenue | 10 | 8 | 326 | 344 | - | 344 |
| **Total segment revenue/income** | 33,006 | 69,468 | 873 | 103,347 | - | 103,347 |
| **Consolidated revenue** | | | | 103,347 | - | 103,347 |
| **Segment result** | | | | | | |
| **Segment result (notes (ii))** | 6,370 | 19,567 | 899 | 26,836 | - | 26,836 |
| Interest expense & borrowing costs | | | | (4,771) | - | (4,771) |
| Unallocated revenue less unallocated expenses | | | | (10,243) | - | (10,243) |
| Profit before income tax | | | | 11,822 | - | 11,822 |
| Income tax benefit / (expense) | | | | (2,899) | - | (2,899) |
| **Profit for the year** | | | | 8,923 | - | 8,923 |
| **Segment assets and liabilities** | | | | | | |
| **Segment assets** | 134,654 | 146,920 | (100,406) | 181,168 | (214) | 180,954 |
| Intersegment elimination | | | | - | - | - |
| Unallocated assets | | | | - | - | - |
| **Total assets** | | | | 181,168 | (214) | 180,954 |
| **Segment liabilities** | 12,779 | 98,904 | (104,562) | 7,121 | - | 7,121 |
| Intersegment elimination | | | | - | - | - |
| Unallocated liabilities | | | | 81,961 | - | 81,961 |
| **Total liabilities** | | | | 89,082 | - | 89,082 |
| **Other segment information** | | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 2,988 | 30,142 | - | 33,130 | - | 33,130 |
| Total acquisitions | | | | 33,130 | - | 33,130 |
| Depreciation and amortisation expense | 418 | 418 | 1,150 | 1,986 | - | 1,986 |
| Total depreciation and amortisation | | | | 1,986 | - | 1,986 |
| Other non-cash expenses | (217) | 30,157 | 114 | 30,054 | - | 30,054 |

## 4 Segment information (continued)

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

| 2009 | Collection services $'000 | Account asset management $'000 | Intersegment eliminations/ unallocated $'000 | Total continuing operations $'000 | Discontinued operation (note 9) $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 31,780 | 69,741 | 554 | 102,075 | - | 102,075 |
| Intersegment sales | - | - | - | - | - | - |
| Profit from discontinued operations / Other revenue | 55 | 13 | (206) | (138) | 219 | 81 |
| **Total segment revenue/income** | 31,835 | 69,754 | 348 | 101,937 | 219 | 102,156 |
| **Consolidated revenue** | | | | 101,937 | 219 | 102,156 |
| **Segment result** | | | | | | |
| **Segment result (notes (ii))** | 6,470 | 19,667 | 356 | 26,493 | 219 | 26,712 |
| Interest expense & borrowing costs | | | | (4,467) | - | (4,467) |
| Unallocated revenue less unallocated expenses | | | | (11,267) | - | (11,267) |
| Profit before income tax | | | | 10,759 | 219 | 10,978 |
| Income tax benefit / (expense) | | | | (3,059) | (65) | (3,124) |
| **Profit for the year** | | | | 7,700 | 154 | 7,854 |
| **Segment assets and liabilities** | | | | | | |
| **Segment assets** | 150,816 | 151,929 | (121,937) | 180,808 | - | 180,808 |
| Intersegment elimination | | | | - | - | - |
| Unallocated assets | | | | - | - | - |
| **Segment liabilities** | 11,943 | 132,191 | (135,708) | 8,426 | - | 8,426 |
| Unallocated liabilities | | | | 84,422 | - | 84,422 |
| **Total liabilities** | | | | 92,848 | - | 92,848 |
| **Other segment information** | | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 7,338 | 70,840 | - | 78,178 | - | 78,178 |
| Total acquisitions | | | | 78,178 | - | 78,178 |
| Depreciation and amortisation expense | 291 | - | 1,335 | 1,626 | - | 1,626 |
| Total depreciation and amortisation | | | | 1,626 | - | 1,626 |
| Other non-cash expenses | 199 | 31,568 | (310) | 31,457 | - | 31,457 |

**Changes to the segment note and comparatives**

During the year ended 30 June 2010, the business was restructured internally. Due to increasing volumes of internal work, an internal business unit that was formerly undertaking a small amount of external work for third parties was restructured as a fully internal business unit. The internal work is more profitable to the consolidated group than the external work that was formerly being performed. The 30 June 2009 comparative disclosure in the segment note has been restated to reflect this change. The same adjustments were reflected in the half year report.

## 4 Segment information (continued)

### (c) Geographical information

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

| | Segment revenues from sales to external customers | | Segment assets | | Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | |
|---|---|---|---|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Australia | 97,361 | 96,656 | 173,118 | 171,559 | 33,093 | 78,016 |
| New Zealand | 5,642 | 5,282 | 7,836 | 9,249 | 37 | 162 |
| | 103,003 | 101,938 | 180,954 | 180,808 | 33,130 | 78,178 |
| Total assets | | | 180,954 | 180,808 | | |

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

#### (i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and Accounting Standard AASB 8 *Operating Segments*.

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

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

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

#### (ii) Segment margins

| | Collection Services | | Account Asset Management | | Discontinued Operations | |
|---|---|---|---|---|---|---|
| | 30 June 2010 % | 30 June 2009 % | 30 June 2010 % | 30 June 2009 % | 30 June 2010 % | 30 June 2009 % |
| Margin on sales revenue | 19 | 19 | 28 | 28 | - | 100 |

## 5 Correction of error in reporting expenses in previous years

As noted in the 30 June 2009 annual report, the Company had moved to correct its approach to accounting for employment costs, which were previously accounted for on an effectively cash basis which is inconsistent with accrual accounting principles.

A correction was made during the year ended 30 June 2009 by restating each of the affected financial statement line items for the prior (2008) year.

## 6 Revenue

| From continuing operations | Consolidated 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|
| **Sales revenue** | | |
| Revenue from rendering of services | 101,062 | 99,743 |
| | 101,062 | 99,743 |
| **Other revenue** | | |
| Rent received | 4 | 272 |
| Interest | 2,018 | 1,817 |
| Other Income | 263 | 127 |
| | 2,285 | 2,216 |
| **Total revenue from continuing operations** | 103,347 | 101,959 |
| From discontinued operations (note 9) | | |
| Downie & Associates Unit Trust | - | 219 |
| | - | 219 |

## 7 Expenses

| Profit before income tax includes the following specific expenses: | Consolidated 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|
| **Depreciation** | | |
| Leasehold improvements, plant and equipment | 1,986 | 1,626 |
| | - | - |
| Total depreciation | 1,986 | 1,626 |
| **Amortisation** | | |
| Legal and court cost capitalised | 632 | 669 |
| Total amortisation | 632 | 669 |
| Total depreciation and amortisation | 2,618 | 2,295 |
| **Finance costs** | | |
| Interest and finance charges paid/payable | 4,771 | 4,467 |
| | 4,771 | 4,467 |
| **Fair Value losses on other financial assets (note 12)** | 29,879 | 30,265 |
| | 29,879 | 30,265 |

## 8 Income tax expense

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| **(a) Income tax expense** | | |
| Current income tax provision | 4,253 | 3,235 |
| Deferred income tax provision | (495) | (2,711) |
| Under (over) provided in prior years | (859) | 2,600 |
| | 2,899 | 3,124 |
| Income tax expense is attributable to: | | |
| Income tax expense/(benefit) - Profit from continuing operations | 2,899 | 3,059 |
| Income tax expense/(benefit) - Profit from discontinued operations | - | 65 |
| Aggregate income tax expense | 2,899 | 3,124 |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | |
| Decrease (increase) in deferred tax assets (note 15) | 376 | 1,407 |
| (Decrease) increase in deferred tax liabilities (note 22) | (871) | (4,118) |
| | (495) | (2,711) |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | 11,822 | 10,759 |
| Profit from discontinuing operations before income tax expense | - | 219 |
| | 11,822 | 10,978 |
| Tax at the Australian tax rate of 30% (2009 - 30%) | 3,547 | 3,293 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible expenses | 84 | (16) |
| | 3,631 | 3,277 |
| Adjustments for current tax of prior periods | (732) | (153) |
| | (732) | (153) |
| Income tax expense | 2,899 | 3,124 |

## 9 Discontinued operation

### Downie & Associates Unit Trust

### (a) Recovery of previously impaired assets

As reported in the year ended 30 June 2005, on 17 September 2004 the consolidated entity sold the business of Downie & Associates, recording a profit on disposal of $78,000, and recognising a non-current receivable of $970,000. As part of the transition to AIFRS, on 1 July 2005, the company adopted AASB132 - Financial Instruments: Disclosure and Presentation and AASB139 - Financial Instruments: Recognition and Measurement, and at that date, based on management's assessment, the $970,000 receivable was fully impaired as there appeared to be no prospect of recovery. Under the stricter rules of AIFRS, the company was required to impair the debt to the level of potential recovery.

Subsequent to the impairment, in the year ended 30 June 2009 $219,000 was recovered ($151,000 after income tax), which has been included as a profit from discontinued operations. No amounts have been recovered in the year ended 30 June 2010. As management has no expectation of further recoveries in future periods, no amounts have been reinstated for this receivable. Any future recoveries will be recorded as profits from discontinued operations as they are received.

Financial information relating to the discontinued operation for the period to the date of disposal (11 May 2007) is set out below. Further information is set out in note 4 - segment information.

### (b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the 12 months ended 30 June 2009. There were no recoveries of the non-current receivable in the current year.

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Revenue (note 6) | - | 219 |
| Income tax expense | - | (65) |
| **Profit from discontinued operation** | - | 154 |
| Net cash inflow from the division | - | 154 |
| **Net increase in cash generated by the division** | - | 154 |

## 10 Current assets - Cash and cash equivalents

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Cash at bank and in hand | 459 | 584 |
| | 459 | 584 |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Bank overdraft right of set-off | | |
| Balances as above | 459 | 584 |
| Bank overdrafts (note 19) | (601) | - |
| Balances per statement of cash flows | (142) | 584 |

### (b) Cash at bank and on hand

Information concerning the effective interest rates is set out in the current receivables note 11.

### (c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

### (d) Bank overdraft right of set-off

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

## 11 Current assets - Receivables

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Net trade receivables** | | |
| Trade debtors | 1,833 | 2,078 |
| Provision for impairment of receivables (note (a)) | (319) | (318) |
| | 1,514 | 1,760 |
| Loans to controlled entities | - | (7) |
| | - | (7) |
| Other debtors | 2,603 | 2,877 |
| | 4,117 | 4,630 |

## 11 Current assets - Receivables (continued)

### (a) Impaired trade receivables

As at 30 June 2010 current trade receivables of the Group with a nominal value of $323,000 (2009 - $468,000) were impaired. The amount of the provision was $319,000 (2009 - $318,000). The individually impaired receivables mainly relate to debtors which have been outstanding for more than 90 days. It has been assessed that a portion of these receivables are expected to be recovered.

The ageing of these receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| 1 to 3 months | - | - |
| 3 to 6 months | 323 | 468 |
| | 323 | 468 |

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

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| At 1 July | 318 | 690 |
| Provision for impairment recognised during the year | 13 | 85 |
| Receivables written off during the year as uncollectible | (15) | - |
| Bad debts recovered | 45 | - |
| Unused amount reversed | (42) | (457) |
| | 319 | 318 |

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

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

### (b) Past due but not impaired

As of 30 June 2010, trade receivables of the Group of $218,000 (2009 - $291,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Up to 3 months | 218 | 291 |
| 3 to 6 months | - | - |
| | 218 | 291 |

## 11 Current assets - Receivables (continued)

### (c) Other receivables

These amounts relate to accrued revenue and rental bonds.

### (d) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

| 2010 | Floating interest rate $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|
| Trade receivables | - | 1,514 | 1,514 |
| Other receivables | - | 2,603 | 2,603 |
| Purchased Debt | - | 146,485 | 146,485 |
| Cash & cash equivalents | 455 | 4 | 459 |
| | 455 | 150,606 | 151,061 |
| Weighted average interest rate (%) | 4.8% | - % | |

| 2009 | Floating interest rate $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|
| Trade receivables | - | 1,760 | 1,760 |
| Other receivables | - | 2,877 | 2,877 |
| Purchased debt | - | 146,916 | 146,916 |
| Cash & cash equivalents | 579 | 5 | 584 |
| | 579 | 151,558 | 152,137 |
| Weighted average interest rate | 6.0% | - % | |

### (e) Foreign exchange and interest rate risk

Information about the Company's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

### (f) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Company and the credit quality of the entity's trade receivables.

## 12 Other financial assets at fair value through profit or loss

The following table presents the group's assets which are measured and recognised at fair value at 30 June 2010. The assets below are financial instruments which are classified as level 3 under the hierarchy set out in AASB 7 - Financial Instruments: Disclosures. Further details are set out in Note 2

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Current and Non-Current** | | |
| At beginning of year | 146,916 | 143,470 |
| Additions | 29,448 | 33,711 |
| Fair value gain / (loss) | (29,879) | (30,265) |
| At end of year | 146,485 | 146,916 |

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Other Financial Assets at fair value through Profit and Loss | 146,485 | 146,916 |
| | 146,485 | 146,916 |

The amount of the above financial assets are classified as follows:

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Current | 35,234 | 29,999 |
| Non Current | 111,251 | 116,917 |
| | 146,485 | 146,916 |

Gains / (losses) in fair values of other financial assets at fair value through profit or loss are recorded in the income statement.

### (a) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and price risk are provided in note 2.

## 13 Current assets - Other current assets

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Other deposits | 16 | 16 |
| Prepayments | 1,342 | 980 |
| | 1,358 | 996 |

## 14 Non-current assets - Property, plant and equipment

| | Plant and equipment $'000 | Motor vehicles $'000 | Leasehold improvements $'000 | Leased plant & equipment $'000 | Work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2008** | | | | | | |
| Cost or fair value | 10,719 | 9 | 1,090 | 8 | 723 | 12,549 |
| Accumulated depreciation | (8,871) | - | (217) | (6) | - | (9,094) |
| Net book amount | 1,848 | 9 | 873 | 2 | 723 | 3,455 |
| **Year 30 June 2009** | | | | | | |
| Opening net book amount | 1,848 | 9 | 873 | 2 | 723 | 3,455 |
| Additions | 315 | - | 56 | - | 6,184 | 6,555 |
| Disposals | (395) | - | (1,647) | (2) | - | (2,044) |
| Impairment charge recognised in profit and loss | - | - | - | - | - | - |
| Reversal of Impairment charge in profit and loss | 18 | - | - | - | - | 18 |
| Depreciation charge | (679) | (2) | (245) | - | - | (926) |
| Transfers | 3,247 | - | 3,494 | - | (6,883) | (142) |
| Closing net book amount | 4,354 | 7 | 2,531 | - | 24 | 6,916 |
| **At 30 June 2009** | | | | | | |
| Cost or fair value | 7,399 | 9 | 2,815 | 2 | 25 | 10,250 |
| Accumulated depreciation | (3,045) | (2) | (284) | (2) | - | (3,333) |
| Net book amount | 4,354 | 7 | 2,531 | - | 25 | 6,917 |

| | Plant and equipment $'000 | Motor vehicles $'000 | Leasehold improvements $'000 | Leased plant & equipment $'000 | Work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Year 30 June 2010** | | | | | | |
| Opening net book amount | 4,354 | 7 | 2,531 | 2 | 25 | 6,919 |
| Additions | 876 | - | 35 | - | 618 | 1,529 |
| Disposals | (81) | (5) | (3) | (2) | - | (91) |
| Reversal of Impairment charge in profit and loss | - | - | - | - | - | - |
| Transfers to assets held for sale | - | - | - | - | - | - |
| Depreciation charge | (943) | (2) | (266) | - | - | (1,211) |
| Transfers | - | - | - | - | (574) | (574) |
| Closing net book amount | 4,206 | - | 2,297 | - | 69 | 6,572 |
| **At 30 June 2010** | | | | | | |
| Cost or fair value | 7,902 | - | 2,844 | 2 | 69 | 10,817 |
| Accumulated depreciation | (3,696) | - | (547) | (2) | - | (4,245) |
| Net book amount | 4,206 | - | 2,297 | - | 69 | 6,572 |

### (a) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the Company.

## 15 Non-current assets - Deferred tax assets

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Tax losses | 152 | - |
| Accruals | 262 | 194 |
| Future deductible windup costs | 343 | 623 |
| Doubtful debts | 97 | 95 |
| Provisions and employee benefits | 813 | 710 |
| Fixed assets | - | 43 |
| Sundry | 55 | 431 |
| | 1,722 | 2,096 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 22) | (1,722) | (2,096) |
| Net deferred tax assets | - | - |
| **Movements:** | | |
| Opening balance at 1 July | 2,096 | 3,505 |
| Change on adoption of AASB 132 and AASB 139 (note 1) | - | - |
| Credited/(charged) to the preliminary income statement (note 8) | (374) | (1,409) |
| Closing balance at 30 June | 1,722 | 2,096 |

| Movements - Consolidated | Tax losses $'000 | Employee benefits $'000 | Doubtful Debts $'000 | Fixed Assets $'000 | Receivables impairment & accruals $'000 | Future deductible windup costs $'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2008** | - | 713 | 200 | 320 | 475 | 934 |
| (Charged)/credited | | | | | | |
| - to profit or loss | - | (3) | (105) | (277) | (281) | (311) |
| **At 30 June 2009** | - | 710 | 95 | 43 | 194 | 623 |

| Movements - Consolidated | Sundry $'000 | Total $'000 |
|---|---|---|
| **At 1 July 2008** | 863 | 3,505 |
| (Charged)/credited | | |
| - to profit or loss | (432) | (1,409) |
| **At 30 June 2009** | 431 | 2,096 |

| Movements - Consolidated | Tax losses $'000 | Employee benefits $'000 | Doubtful Debts $'000 | Fixed assets $'000 | Receivables impairment & accruals $'000 | Future deductible windup costs $'000 |
|---|---|---|---|---|---|---|
| **At 30 June 2009** | - | 710 | 95 | 43 | 194 | 623 |
| (Charged)/credited | - | - | - | - | - | - |
| - to profit or loss | 152 | 103 | 2 | (43) | 68 | (280) |
| **At 30 June 2010** | 152 | 813 | 97 | - | 262 | 343 |

| Movements - Consolidated | Sundry $'000 | Total $'000 |
|---|---|---|
| **At 30 June 2009** | 431 | 2,096 |
| (Charged)/credited | - | - |
| - to profit or loss | (376) | (374) |
| **At 30 June 2010** | 55 | 1,722 |

## 16 Non-current assets - Intangible assets

| | Goodwill $'000 | Computer software $'000 | Other intangible assets $'000 | Work-in-progress - Cost * $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | | | | | |
| Cost | 28,026 | 6,194 | 1,005 | - | 35,225 |
| Accumulated amortisation and impairment | (9,729) | (4,267) | (970) | - | (14,966) |
| Net book amount | 18,297 | 1,927 | 35 | - | 20,259 |
| **Year ended 30 June 2009** | | | | | |
| Opening net book amount | 18,297 | 1,927 | 35 | - | 20,259 |
| Additions | - | 222 | 34 | 41 | 297 |
| Impairment charge | - | - | - | - | - |
| Amortisation charge | - | (735) | - | - | (735) |
| Disposals | (6) | - | - | - | (6) |
| | - | 722 | - | - | 722 |
| Closing net book amount | 18,291 | 2,136 | 69 | 41 | 20,537 |
| **At 30 June 2009** | | | | | |
| Cost | 28,027 | 7,138 | 1,039 | 41 | 36,245 |
| Accumulated amortisation and impairment | (9,737) | (5,002) | (970) | - | (15,709) |
| Net book amount | 18,290 | 2,136 | 69 | 41 | 20,536 |

| | Goodwill $'000 | Computer software $'000 | Other intangible assets $'000 | Work-in-progress - Cost * $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year 30 June 2010** | | | | | |
| Opening net book amount | 18,290 | 2,136 | 69 | 41 | 20,536 |
| Additions - internal development | - | 170 | - | 1,883 | 2,053 |
| Impairment charge | - | - | - | - | - |
| Amortisation charge | - | (785) | - | - | (785) |
| Disposals | - | - | - | - | - |
| Transfers | - | - | - | (19) | (19) |
| Closing net book amount | 18,290 | 1,521 | 69 | 1,905 | 21,785 |
| **At 30 June 2010** | | | | | |
| Cost | 28,030 | 7,308 | 519 | 1,905 | 37,762 |
| Accumulated amortisation and impairment | (9,739) | (5,787) | (450) | - | (15,976) |
| Net book amount | 18,291 | 1,521 | 69 | 1,905 | 21,786 |

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

## 16 Non-current assets - Intangible assets (continued)

### (a) Impairment tests for goodwill

Goodwill is allocated to the Company's cash generating units (CGUs) identified according to business segment.

A segment level summary of the goodwill allocation is presented below.

| 2010 | Collection Services $'000 | Account asset management $'000 | Total $'000 |
|---|---|---|---|
| Goodwill | 18,291 | - | 18,291 |
| | 18,291 | - | 18,291 |

| 2009 | Collection Services $'000 | Account asset management $'000 | Total $'000 |
|---|---|---|---|
| Goodwill | 18,291 | - | 18,291 |
| | 18,291 | - | 18,291 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows are not extrapolated beyond five years. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

There is no goodwill associated with the Account asset management CGU.

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

| | Growth rate (revenue)* | | Growth rate (expenses) ** | | Discount rate *** | |
|---|---|---|---|---|---|---|
| CGU | 30 June 2010 % | 30 June 2009 % | 30 June 2010 % | 30 June 2009 % | 30 June 2010 % | 30 June 2009 % |
| Collection services | 0.00 | 0.00 | 2.90 | 2.75 | 5.08 | 5.08 |
| Account asset management | 0.00 | 0.00 | 2.90 | 2.75 | 5.08 | 5.08 |

* Revenue growth has been set at Nil for the period of the calculation to minimise the risk of overstating the Valueinuse.

** Expense growth rate has been set at the current inflation rate for the period of the calculation.

*** In performing the value-in-use calculations for each CGU, the Company has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

These assumptions have been used for the analysis of each CGU within the business segment. Management determined the operational budget based on past performance and its expectations for the future. The growth rates used reflect management expectations and are consistent with forecast inflation as published by the Australian Bureau of Statistics. The discount rates used is based upon the risk free rate adjusted to reflect specific risks relating to the relevant segments in which they operate.

Considering the current uncertainties surrounding the Government's proposed emissions trading scheme, the entity has not made any adjustments to their future estimated cash outflows for any possible impact from the introduction of such a scheme.

### (c) Impairment charge

As a result of the impairment evaluation, the carrying value of intangible assets does not exceed their value-in-use, and no impairment charge was required (2009: Nil).

## 16 Non-current assets - Intangible assets (continued)

### (d) Impact of possible changes in key assumptions

**Collection services**

There is a substantial margin between the calculated Value-in-use and the carrying value of all assets within the CGU. If the risk-free rate used in the value-in-use calculation had been 10% at 30 June 2010 rather than 5.08%, there would have been no impact on the resulting impairment evaluation. Because of the large excess of fair value over carrying value, at no reasonable risk free rate is there a impairment issue for the CGU.

If the estimated revenue growth is increased to 4.00% and expenses growth held at 2.90%, there is no impact on the resulting impairment evaluation. If the revenue growth rate is decreased to -2.00% (i.e. declining revenue) and expense growth is set at 2.00%, there is no impact on the resulting impairment evaluation. To reflect the company's current practice of managing revenue and expenses simultaneously, growth in revenue and growth in expenses has been considered together rather than in isolation.

## 17 Non-current assets - Other non-current assets

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Legal and court costs capitalised | 4,509 | 3,929 |
| Legal & Court costs - accumulated amortisation | (4,332) | (3,700) |
| | 177 | 229 |

## 18 Current liabilities - Payables

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Trade creditors | 1,564 | 1,979 |
| Other creditors and accruals | 2,524 | 2,643 |
| | 4,088 | 4,622 |

### (a) Risk exposure

Information about the Company's exposure to foreign exchange risk is provided in note 2.

## 19 Current liabilities - Borrowings

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Secured** | | |
| Bank overdraft | 601 | - |
| Total secured current borrowings | 601 | - |
| Total current borrowings | 601 | - |

Further information relating to Borrowings is set out in note 21.

## 20 Current liabilities - Provisions

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Provisions - Employee benefits | 2,054 | 1,950 |
| Restructuring 2009 | - | 50 |
| Provisions - Other | 41 | - |
| | 2,095 | 2,000 |

### (a) Movements in provisions

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

| | Restructuring 2009 $'000 | Provisions - Other $'000 |
|---|---|---|
| **2010** | | |
| **Current** | | |
| Carrying amount at start of year | 50 | - |
| - additional provisions recognised | - | 41 |
| - amounts incurred and charged | (50) | - |
| Carrying amount at end of year | - | 41 |

| | Restructuring 2008 $'000 | Restructuring 2009 $'000 |
|---|---|---|
| **2009** | | |
| **Current** | | |
| Carrying amount at start of year | 1,016 | - |
| - additional provisions recognised | 399 | 554 |
| - amounts incurred and charged | (1,117) | - |
| - unused amounts reversed | (298) | (504) |
| Carrying amount at end of year | - | 50 |

## 21 Non-current liabilities - Borrowings

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Secured** | | |
| Secured - Bank loans | 66,900 | 69,700 |
| Total secured non-current borrowings | 66,900 | 69,700 |
| **Unsecured** | | |
| Total unsecured non-current borrowings | - | - |
| Total non-current borrowings | 66,900 | 69,700 |

## 21 Non-current liabilities - Borrowings (continued)

### (a) Total secured liabilities

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **The total secured liabilities (current and non-current) are as follows:** | | |
| Bank overdrafts and bank loans | 67,501 | 69,700 |
| Total secured liabilities | 67,501 | 69,700 |

### (b) Secured liabilities and assets pledged as security

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **The total secured liabilities (current and non-current) are as follows:** | | |
| Bank overdrafts and bank loans | 67,501 | 69,700 |
| Total secured liabilities | 67,501 | 69,700 |

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

Other loans are secured by a fixed and floating charge over the assets of a controlled entity.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Current** | | | |
| *Floating charge* | | | |
| Cash and cash equivalents | 10 | 459 | 584 |
| Receivables | 11 | 4,117 | 4,630 |
| Financial assets at fair value through profit or loss | 12 | 146,485 | 146,916 |
| Total current assets pledged as security | | 151,061 | 152,130 |
| **Non-current** | | | |
| *Floating charge* | | | |
| Plant and equipment | 14 | 6,572 | 6,917 |
| Total non-current assets pledged as security | | 6,572 | 6,917 |
| Total assets pledged as security | | 157,633 | 159,047 |

## 21 Non-current liabilities - Borrowings (continued)

### (c) Fair value

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

| Group | At 30 June 2010 Carrying amount $'000 | At 30 June 2010 Fair value $'000 | At 30 June 2009 Carrying amount $'000 | At 30 June 2009 Fair value $'000 |
|---|---|---|---|---|
| **On-balance sheet (i)** | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank overdrafts | 601 | 601 | - | - |
| Bank loans | 66,900 | 66,900 | 69,700 | 69,700 |
| | 67,501 | 67,501 | 69,700 | 69,700 |
| | 67,501 | 67,501 | 69,700 | 69,700 |

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

#### (i) On-balance sheet

The fair value of current borrowings equals their carrying amount. The facility is structured as a series of loan instruments which are renewed on a regular basis with terms of less than six months, and the impact of discounting on such instruments is not material. The overall facility is classified as non-current.

### (d) Risk exposures

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

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

## 22 Non-current liabilities - Deferred tax liabilities

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Prepayments | 7 | 4 |
| Purchased debt | 15,871 | 16,384 |
| Fixed Assets | 92 | - |
| Sundry | (29) | 427 |
| | 15,941 | 16,815 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 15) | (1,722) | (2,096) |
| Net deferred tax liabilities | 14,219 | 14,719 |

## 22 Non-current liabilities - Deferred tax liabilities (continued)

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Movements:** | | |
| Opening balance at 1 July | 16,815 | 20,933 |
| Charged/(credited) to the preliminary income statement (note 8) | (871) | (4,118) |
| Closing balance at 30 June | 15,944 | 16,815 |

| Movements - Consolidated | Property, plant and equipment $'000 | Prepayments $'000 | Purchased debt $'000 | Intangibles $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2008** | 11 | 6 | 20,873 | 43 | - | 20,933 |
| - to profit or loss | (11) | (2) | (4,489) | (43) | 427 | (4,118) |
| **At 30 June 2009** | - | 4 | 16,384 | - | 427 | 16,815 |

| Movements - Consolidated | Property, plant and equipment $'000 | Prepayments $'000 | Purchased debt $'000 | Intangibles $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 30 June 2009** | - | 4 | 16,384 | - | 427 | 16,815 |
| - to profit or loss | 92 | 3 | (548) | - | (418) | (871) |
| **At 30 June 2010** | 92 | 7 | 15,836 | - | 9 | 15,944 |

## 23 Non-current liabilities - Provisions

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Provisions - Employee benefits | 337 | 211 |
| | 337 | 211 |

## 24 Employee benefits

### (a) Superannuation plans

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

## 25 Contributed equity

| | Company | | Company | |
|---|---|---|---|---|
| | 2010 Shares | 2009 Shares | 2010 $'000 | 2009 $'000 |
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | 97,321,881 | 97,321,881 | 67,256 | 67,256 |
| | 97,321,881 | 97,321,881 | 67,256 | 67,256 |
| **Total contributed equity** | | | 67,256 | 67,256 |

### (b) Movements in ordinary share capital:

Issues of ordinary shares during the year

| Date | Details | Number of shares | $'000 |
|---|---|---|---|
| 1 July 2008 | Opening balance | 97,321,881 | 67,256 |
| 30 June 2009 | Closing balance | 97,321,881 | 67,256 |
| 1 July 2009 | Opening balance | 97,321,881 | 67,256 |
| 30 June 2010 | Closing balance | 97,321,881 | 67,256 |

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 35.

### (e) Options

Information relating to options provided as part of the the MD/CEO remuneration package and options provided under the Collection House Executive Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 35.

## 25 Contributed equity (continued)

### (f) Capital risk management

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

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

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

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

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

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

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

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

The financing facility includes all funding provided by the group's main banker. Details of financing facilities are set out in note 2.

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

As part of the financing facility, the company is required to monitor a number of financial indicators as specified by the financier. The group monitors the indicators on a monthly basis and reports to the funding provider every six months. The company has materially met these covenant at all times during the year.

This strategy was followed during both the 2010 and 2009 financial years.

## 26 Reserves and retained earnings

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **(a) Reserves** | | |
| Share-based payments reserve | 1,050 | 878 |
| Foreign currency translation reserve | (756) | (707) |
| | 294 | 171 |

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **Movements:** | | |
| Share-based payments reserve | | |
| Balance 1 July | 878 | 475 |
| Option expense | 172 | 403 |
| Balance 30 June | 1,050 | 878 |

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **Movements:** | | |
| Foreign currency translation reserve | | |
| Balance 1 July | (707) | (794) |
| Net investment hedge | | |
| Currency translation differences arising during the year | (49) | 87 |
| Balance 30 June | (756) | (707) |

### (b) Retained earnings

Movements in retained earnings were as follows:

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| Balance 1 July | 20,533 | 18,665 |
| Opening balance adjustment | 121 | - |
| Net profit for the year | 8,923 | 7,854 |
| Dividends | (5,255) | (4,671) |
| Adjustment on adoption of accounting standard * | - | (1,315) |
| Balance 30 June | 24,322 | 20,533 |

* As noted in the 2009 Annual Report , the group adopted changes to AASB 127 and AASB 3 with effect from 1 July 2008. In accordance with those standards, the Minority Interest in Equity was transferred directly to Retained Earnings on disposal of the Minority Interest in the Group.

## 26 Reserves and retained earnings (continued)

### (c) Nature and purpose of reserves

#### (i) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of options issued to employees but not exercised.

#### (ii) Foreign currency translation reserve

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

## 27 Dividends

| | Company | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| **(a) Ordinary shares** | | |
| Fully franked final dividend for the year ended 30 June 2009 - 2.6 cents per share (2008 - 2.5 cents) | 2,530 | 2,433 |
| Fully franked interim dividend for the year ended 30 June 2010 - 2.8 cents per share (2009: 2.3 cents) | 2,725 | 2,238 |
| | 5,255 | 4,671 |

| | Company | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Dividends paid in cash during the years ended 30 June 2010 and 2009 were as follows: | | |
| Paid in cash | 5,255 | 4,671 |
| | 5,255 | 4,671 |

| | Company | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| **(b) Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the directors have recommended the payment of a fully franked final dividend of 3.0 cents per fully paid ordinary share (2009 - 2.6 cents, fully franked). The aggregate amount of the proposed dividend expected to be paid on 26 November 2010 out of retained profits and a positive net balance sheet at 30 June 2010, but not recognised as a liability at year end, is | 2,920 | 2,530 |
| | 2,920 | 2,530 |

## 27 Dividends (continued)

### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

| | Consolidated | |
|---|---|---|
| | **30 June 2010 $'000** | **30 June 2009 $'000** |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2009 - 30%) | 47 | - |
| | 47 | - |

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

(a) franking credits that will arise from the payment of the amount of the provision for income tax,

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date,

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and

(d) franking credits that may be prevented from being distributed in subsequent financial years.

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

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $1,251,000 (2009: $1,084,000).

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

## 28 Key management personnel disclosures

### (a) Directors

The following persons were directors of Collection House Limited during the financial year:

#### (i) Chairman - non-executive director

J.M. Pearce

#### (ii) Executive directors

A.R. Aveling – Managing Director and Chief Executive Officer (retired 31 July 2010)

#### (iii) Non-executive directors

D. G. Punches

A. F. Coutts

W. W. Kagel

K. J. Daly (appointed 30 October 2009)

B. E. Adams (Lead independent director) (retired 30 October 2009)

D. B. Connelly (retired 30 October 2009)

W. L. Hiller (retired 30 October 2009)

## 28 Key management personnel disclosures (continued)

### (b) Key management personnel

The following persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name | Position | Employer |
|---|---|---|
| Tony Aveling | Managing Director and Chief Executive Officer (retired 31 July 2010) | Collection House Limited |
| Matthew Thomas | Chief Operating Officer (appointed Chief Executive Officer 1 August 2010) | Collection House Limited |
| Adrian Ralston | Chief Financial Officer | Collection House Limited |
| Michael Watkins | General Counsel and Company Secretary | Collection House Limited |
| Kylie Lynam | General Manager - Human Resources | Collection House Limited |
| Michael Voysey | Chief Marketing Officer | Collection House Limited |

All of the above persons (except Michael Voysey) were also key management persons during the year ended 30 June 2009.

Michael Voysey was employed as the Chief Marketing Officer from 16 September 2009 to 16 July 2010.

### (c) Key management personnel compensation

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $ | 30 June 2009 $ |
| Short-term employee benefits | 2,655,509 | 2,455,061 |
| Post-employment benefits | 224,878 | 204,609 |
| Share-based payments | 139,275 | 328,552 |
| | 3,019,662 | 2,988,222 |

Detailed remuneration disclosures are provided in sections A-D of the remuneration report on pages 26 to 31.

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Options provided as remuneration

Details of options over ordinary shares in the Company provided as remuneration to each director of Collection House Limited and each of the five specified executives of the Company are set out below. When exercisable, each option is convertible into one ordinary share of Collection House Limited. Further information on the options is set out in note 35.

#### (ii) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report .

## 28 Key management personnel disclosures (continued)

### (d) Equity instrument disclosures relating to key management personnel (continued)

#### (iii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Collection House Limited and other key management personnel of the Company, including their personally related parties, are set out below.

| 2010 Name | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **Directors of Collection House Limited** | | | | | | | |
| A. Aveling | 4,000,000 | - | - | - | 4,000,000 | 400,000 | 3,600,000 |
| **Other key management personnel of the Company** | | | | | | | |
| M. Thomas | 500,000 | - | - | - | 500,000 | 50,000 | 450,000 |
| A. Ralston | 400,000 | - | - | - | 400,000 | 40,000 | 360,000 |
| M. Watkins | 425,000 | - | - | - | 425,000 | 40,000 | 385,000 |
| K. Lynam | 275,000 | - | - | - | 275,000 | 25,000 | 250,000 |

| 2009 Name | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **Directors of Collection House Limited** | | | | | | | |
| A. Aveling | 2,000,000 | 2,000,000 | - | - | 4,000,000 | 400,000 | 3,600,000 |
| **Other key management personnel of the Company** | | | | | | | |
| M. Thomas | 250,000 | 250,000 | - | - | 500,000 | 50,000 | 450,000 |
| A. Ralston | 200,000 | 200,000 | - | - | 400,000 | 40,000 | 360,000 |
| M. Watkins | 200,000 | 225,000 | - | - | 425,000 | 40,000 | 385,000 |
| K. Lynam | 125,000 | 150,000 | - | - | 275,000 | 25,000 | 250,000 |

## 28 Key management personnel disclosures (continued)

### (d) Equity instrument disclosures relating to key management personnel (continued)

#### (iv) Share holdings

The numbers of shares in the Company held during the financial year by each director of Collection House Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares issued under the terms of the Employee Share Plan during the reporting period as compensation.

| 2010<br>Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Directors of Collection House Limited**<br>**Ordinary shares** | | | | |
| John Pearce | 11,416,130 | - | 44,885 | 11,461,015 |
| Dennis Punches | 17,857,384 | - | 50,000 | 17,907,384 |
| Tony Coutts | 4,464,600 | - | - | 4,464,600 |
| Bill Kagel | 951,269 | - | - | 951,269 |
| Kerry Daly (as at date of appointment, 30 October 2009) | 90,000 | - | 50,000 | 140,000 |
| Tony Aveling | 449,400 | - | 55,600 | 505,000 |
| Barrie Adams * | - | - | - | - |
| Barry Connelly * | 77,143 | - | - | 77,143 |
| Bill Hiller * | 93,000 | - | (43,000) | 50,000 |
| **Other key management personnel of the Company**<br>**Ordinary shares** | | | | |
| M. Thomas | 102,000 | - | - | 102,000 |
| A. Ralston | - | - | - | - |
| M. Watkins | 25,000 | - | - | 25,000 |
| K. Lynam | 11,000 | - | - | 11,000 |

* Barrie Adams, Barry Connelly, and Bill Hiller retired from the Collection House Limited Board effective 30th October 2009.

## 28 Key management personnel disclosures (continued)

### (d) Equity instrument disclosures relating to key management personnel (continued)

| 2009<br>Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Directors of Collection House Limited** | | | | |
| **Ordinary shares** | | | | |
| John Pearce | 11,816,130 | - | (400,000) | 11,416,130 |
| Dennis Punches | 14,150,101 | - | 3,707,283 | 17,857,384 |
| Tony Aveling | 226,400 | - | 223,000 | 449,400 |
| Barrie Adams | - | - | - | - |
| Tony Coutts | 4,164,600 | - | 300,000 | 4,464,600 |
| Barry Connelly | 20,000 | - | 57,143 | 77,143 |
| Bill Hiller | 43,000 | - | 50,000 | 93,000 |
| Bill Kagel | 551,269 | - | 400,000 | 951,269 |
| **Other key management personnel of the Company** | | | | |
| **Ordinary shares** | | | | |
| M. Thomas | 102,000 | - | - | 102,000 |
| A. Ralston | - | - | - | - |
| M. Watkins | 25,000 | - | - | 25,000 |
| K. Lynam | 11,000 | - | - | 11,000 |

### (e) Loans to key management personnel

Details of loans made to directors of Collection House Limited and other key management personnel of the Company, including their personally related parties, are set out below.

#### (i) Aggregates for key management personnel

| Group | Balance at the start of the year<br>$ | Interest paid and payable for the year<br>$ | Interest not charged<br>$ | Balance at the end of the year<br>$ | Number in Company at the end of the year |
|---|---|---|---|---|---|
| 2010 | - | - | - | - | - |
| 2009 | - | - | - | - | - |

#### (ii) Individuals with loans above $100,000 during the financial year

No individual's aggregate loan balance exceeded $100,000 at any time during the financial year.
In 2009, there were no loans to individuals that exceeded $100,000 at any time.

### (f) Other transactions with key management personnel

No payments were made to directors or other key management personnel other than as appropriate payments for performance of their duties as directors.

## 29 Remuneration of auditors

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

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $ | 30 June 2009 $ |
| *Audit services* | | |
| Audit and review of financial reports | 137,000 | 137,000 |
| Audit-related services | 82,000 | 82,050 |
| **Total auditors' remuneration** | 219,000 | 219,050 |

## 30 Contingencies

### (a) Contingent liabilities

The Company had contingent liabilities at 30 June 2010 in respect of:

**Claims**

There were no claims of a material nature during this period.

**Guarantees**

(a) Bank guarantees (secured) exist in respect of satisfactory contract performance in the normal course of business for the Group amounting to $1,449,478 (2009: $1,449,478) which includes a bank guarantee for the fitout of the new Head Office premisies at Green Square North Tower of $1,002,218 (2009: $1,002,218).

(b) On 29 October 2002, the parent entity and certain of its subsidiaries entered into an Interlocking Debt and Interest Guarantee which is supported by a Fixed and Floating charge over all of the assets and uncalled capital of those entities.

These guarantees may give rise to liabilities in the Group if the associates do not meet their obligations under the terms of the contracts subject to the guarantees.

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

## 31 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| *Other financial assets at fair value through the Profit and Loss* | | |
| Payable: | | |
| Within one year | 30,000 | 29,250 |
| Later than one year but not later than five years | - | - |
| Later than five years | - | - |
| | 30,000 | 29,250 |

#### (i) Non-cancellable operating leases

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

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 3,679 | 4,066 |
| Later than one year but not later than five years | 10,601 | 9,002 |
| Later than five years | 2,474 | 4,149 |
| | 16,754 | 17,217 |

## 32 Related party transactions

### (a) Group companies

Details of the parent company, the ultimate parent company and interests in subsidiaries are set out in note 33.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

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

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

### (d) Transactions with other related parties

The classes of non director-related parties are:

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

#### Transactions

There were no transactions with non-wholly owned related parties. Transactions with wholly owned related parties are eliminated on consolidation.

## 33 Subsidiaries

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

| | Equity holding of ordinary shares | |
|---|---|---|
| | 2010 | 2009 |
| **Name of entity** | % | % |
| Parent and Ultimate Parent company: | | |
| Collection House Limited | | |
| **Controlled entities - incorporated in Australia** | | |
| ACN 007 279 129 Pty Ltd (formerly Countrywide Mercantile Credit Services Pty Ltd) ** | 100 | 100 |
| ACN 010 920 411 Pty Ltd (formerly Australian Business Research Pty Ltd) ** | 100 | 100 |
| Collection House ALR Pty Ltd ** | 100 | 100 |
| Collective Learning and Development Pty Ltd | 100 | 100 |
| Jones King Lawyers Pty Ltd | 100 | 100 |
| Lion Finance Pty Ltd | 100 | 100 |
| Midstate Credit Management Services Pty Ltd | 100 | 100 |
| **Controlled entities - incorporated in New Zealand** | | |
| Collection House (NZ) Limited | 100 | 100 |
| Lion Finance Limited | 100 | 100 |
| 1071066 Limited (formerly abr.nz Limited) ** | 100 | 100 |
| **The following Australian companies were voluntarily deregistered in 2009/2010 financial year:** | | |
| ABR Publications Pty Ltd ** | 100 | 100 |
| ACN 073 212 722 Pty Ltd (formerly National Revenue Corporation Pty Ltd) ** | 100 | 100 |
| ACN 096 967 485 Pty Ltd (formerly known as Rapid Ratings Pty Ltd )(a wholly owned subsidiary of Collection House Business Diagnostics Pty Ltd) ** | 100 | 100 |
| ACN 079 105 025 Pty Ltd (formerly National Tenancy Database Pty Ltd) ** | 100 | 100 |
| Australian Corporate Reporting Pty Ltd ** | 100 | 100 |
| Collection House Business Diagnostics Pty Ltd ** | 100 | 100 |

** These controlled entities have not traded during the financial year

## 34 Earnings per share

| | Consolidated | |
|---|---|---|
| | 30 June 2010 Cents | 30 June 2009 Cents |
| **(a) Basic earnings per share** | | |
| Profit / (loss) from continuing operations attributable to the ordinary equity holders of the company | 9.2 | 7.9 |
| Profit / (loss) from discontinued operation | - | 0.2 |
| Total basic earnings per share attributable to the ordinary equity holders of the company | 9.2 | 8.1 |
| **(b) Diluted earnings per share** | | |
| Profit / (loss) from continuing operations attributable to the ordinary equity holders of the company | 9.1 | 7.9 |
| Profit / (loss) from discontinued operation | - | 0.2 |
| Total diluted earnings per share attributable to the ordinary equity holders of the company | 9.1 | 8.1 |

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

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| **Basic earnings per share** | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | | |
| From continuing operations | 8,923 | 7,700 |
| From discontinued operation | - | 154 |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | 8,923 | 7,854 |
| **Diluted earnings per share** | | |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | | |
| From continuing operations | 8,923 | 7,700 |
| From discontinued operation | - | 154 |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | 8,923 | 7,854 |

## 34 Earnings per share (continued)

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

| | Consolidated | |
|---|---|---|
| | 30 June 2010 Number | 30 June 2009 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 97,321,881 | 97,321,881 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | 946,286 | - |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 98,268,167 | 97,321,881 |

### (e) Information concerning the classification of securities

#### (i) Options

Options granted to employees under the Collection House Ltd Executive Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 35.

## 35 Share-based payments

### (a) Share options for MD/CEO

In February 2007, the Shareholders approved the issue of 2,000,000 share options in favour of the MD/CEO as part of his Employment Agreement. The full terms of the options are contained in the Notice of General Meeting announced to shareholders on 12 January 2007. A summary of these options is identified below as MD/CEO 1.

In October 2008, the Shareholders approved the issue of a further 2,000,000 share options in favour of the MD/CEO as part of his varied employment agreement. The full terms of the options are contained in the Notice of General Meeting announced to shareholders on 19 September 2008. A summary of these options is identified below as MD/CEO 2.

| | MD/CEO 1 options | | | MD/CEO 2 options | | |
|---|---|---|---|---|---|---|
| Exercise price | | $1.0327 | | | $0.4927 | |
| Earliest possible vesting date | | 28 February 2009 | | | 25 June 2011 | |
| Performance hurdles | Tranche | # of options | Qualifying Price | Tranche | # of options | Qualifying Price |
| | 1 | 400,000 | 0.00 | 1 | 400,000 | 0.60 |
| | 2 | 400,000 | 1.25 | 2 | 400,000 | 0.70 |
| | 3 | 400,000 | 1.50 | 3 | 400,000 | 0.80 |
| | 4 | 400,000 | 1.75 | 4 | 400,000 | 0.90 |
| | 5 | 400,000 | 2.00 | 5 | 400,000 | 1.00 |

## 35 Share-based payments (continued)

### (a) Share options for MD/CEO (continued)

<table>
<tr><th></th><th>MD/CEO 1 options</th><th>MD/CEO 2 options</th></tr>
<tr><td>Expiry date</td><td>The options will expire on:<br>• the business day after the expiration of three (3) months, or any longer period determined by the Company after the MD/CEO ceases to be employed by the Company or a subsidiary of the Company;<br>• the MD/CEO ceasing to be employed by the Company or a subsidiary of the Company due to fraud or dishonesty; or<br>• 28 February 2011.</td><td>25 June 2013, subject to the following, in the event that:<br>(a) the MD/CEO's employment ceases due to genuine retirement, death, disablement, sickness or if the employment is terminated without cause, then the MD/CEO shall be entitled to options granted prior to the date of cessation and for which the vesting date has occurred or which subsequently occurs, prior to the expiry date.<br>(b) the Company terminates the MD/CEO's employment for poor performance (in the reasonable opinion of the Company), the MD/CEO may only exercise within 12 months after the date of termination. All other options shall immediately lapse.<br>(b) the MD/CEO resigns or has employment terminated for cause, the MD/CEO may only exercise within 1 month of the date of termination those options which have vested prior to the date of termination or resignation. All other options shall immediately lapse.</td></tr>
<tr><td>Exercise conditions</td><td>The options will vest on the later of:<br>(a) 28 February 2009; and<br>(b) in respect of 400, 000 options, the options will be exercisable with no qualifying price applying; and<br>(c) in respect of the remaining 1,600,000 options, the options will only be exercisable, pro-rata, if and when the company's share price reaches certain qualifying prices between $1.25 and $2.00.</td><td>The options will vest on the later of:<br>• 25 June 2011; and<br>• for each tranche of options, as follows:<br>(a) In respect of the first tranche options, the date that the weighted average closing price shares over a 10 business day period (Qualifying Price) for the first tranche options (namely $0.60) is satisfied;<br>(b) In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) is satisfied;<br>(c) In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) is satisfied;<br>(d) In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) is satisfied; and<br>(e) In respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) is satisfied.</td></tr>
</table>

## 35 Share-based payments (continued)

### (a) Share options for MD/CEO (continued)

| | MD/CEO 1 options | MD/CEO 2 options |
|---|---|---|
| Exercise price | $1.0327 per option | $0.4927 per option |
| Grant date | 22 February 2007 | 31 October 2008 |
| Share price at grant date | $0.91 | $0.48 |
| Expected price volatility | 43.8% | 55.6% |
| Expected dividend yield | 3.29% | 9% |
| Risk free interest rate | 5.99% | 6.64% |

The expected price volatility is usually based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The resulting valuation per option is as follows:

| Tranche | MD/CEO 1 options | MD/CEO 2 options |
|---|---|---|
| 1 | $0.26881 | $0.153 |
| 2 | $0.23054 | $0.152 |
| 3 | $0.19578 | $0.151 |
| 4 | $0.16085 | $0.148 |
| 5 | $0.12945 | $0.146 |

### (b) Executive Share Option Plan

Participation in the Executive Share option Plan (ESOP) is determined by the MD/CEO, through Board approval. The MD/CEO prepares a list of executives and their proposed level of participation in the ESOP. The ESOP was approved by the Board and 1,250,000 options were issued to eligible senior employees on 15 June 2007. The options were submitted for shareholder ratification and approval at the Company's Annual General Meeting in October 2007. A summary of these options is identified below as EXEC1.

A further 1,437,500 options were issued to a number of eligible senior employees pursuant to the ESOP on 18 July 2008. A summary of these options is identified below as EXEC2.

Future options may be issued pursuant to the ESOP with not only individual performance being considered, but also company performance hurdles to be achieved before options may be exercised.

| | | EXEC1 options | | | EXEC2 options | |
|---|---|---|---|---|---|---|
| Exercise price | | $1.0327 | | | $0.4927 | |
| Earliest possible vesting date | | 28 February 2009 | | | 25 June 2011 | |
| Performance hurdles | Tranche | no. of options | Qualifying Price | Tranche | no. of options | Qualifying Price |
| | 1 | 250,000 | 0.00 | 1 | 287,500 | 0.60 |
| | 2 | 250,000 | 1.25 | 2 | 287,500 | 0.70 |
| | 3 | 250,000 | 1.50 | 3 | 287,500 | 0.80 |
| | 4 | 250,000 | 1.75 | 4 | 287,500 | 0.90 |
| | 5 | 250,000 | 2.00 | 5 | 287,500 | 1.00 |

## 35 Share-based payments (continued)

### (b) Executive Share Option Plan (continued)

| | EXEC1 options | EXEC2 options |
|---|---|---|
| Exercise conditions | The options will vest on the later of:<br>(a) 28 February 2009; and<br>(b) in respect of 250, 000 options, the options will be exercisable, pro rata to each eligible employee respectively, with no qualifying price applying; and<br>(c) in respect of the remaining 1,000,000 options, the options will only be exercisable, pro-rata, if and when the company's share price reaches certain qualifying prices between $1.25 and $2.00. | The options will vest on the later of:<br>• 25 June 2011; and<br>• for each tranche of options, as follows:<br>(a) In respect of the first tranche options, the date that the weighted average closing price shares over a 10 business day period (Qualifying Price) for the first tranche options (namely $0.60) is satisfied;<br>(b) In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) is satisfied;<br>(c) In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) is satisfied;<br>(d) In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) is satisfied; and<br>(e) in respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) is satisfied. |
| Exercise price | $1.0327 per option | 0.4927 per option |
| Grant date | 15 June 2007 | 18 July 2008 |
| Expiry date | The options will expire on:<br>• the business day after the expiration of three (3) months, or any longer period determined by the Company after the eligible employee ceases to be employed by the Company or a subsidiary of the Company; or<br>• the eligible employee ceasing to be employed by the Company or a subsidiary of the Company due to fraud or dishonesty; or<br>• 28 February 2011 | 25 June 2013, subject to the following ,in the event that:<br>(a) the eligible employee's employment ceases due to death, disablement, sickness or if the employment is terminated without cause, then the eligible employee shall be entitled to options granted prior to the date of cessation and for which the vesting date has occurred or which subsequently occurs, prior to the expiry date.<br>(b) the Company terminates the eligible employee's employment for poor performance (in the reasonable opinion of the Company), the eligible employee may only exercise within 12 months after the date of termination those options which have vested prior to the date of termination. All other options shall immediately lapse.<br>(c) the eligible employee resigns or has employment terminated for cause, the eligible employee may only exercise within 1 month of the date of termination those options which have vested prior to the date of termination or resignation. All other options shall immediately lapse. |

## 35 Share-based payments (continued)

### (b) Executive Share Option Plan (continued)

| | EXEC1 options | EXEC2 options |
|---|---|---|
| Share price at grant date | $0.89 | $0.48 |
| Expected price volatility | 48.5% | 55.6% |
| Expected dividend yield | 2.91% | 9% |
| Risk free interest rate | 6.14% | 6.64% |

The expected price volatility is usually based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The resulting valuation per option is as follows:

| Tranche | Exec 1 options | Exec 2 options |
|---|---|---|
| 1 | $0.26881 | $0.153 |
| 2 | $0.23054 | $0.152 |
| 3 | $0.19578 | $0.151 |
| 4 | $0.16085 | $0.148 |
| 5 | $0.12945 | $0.146 |

| Grant Date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| | | | Number | Number | Number | Number | Number | Number |
| **Consolidated 2010** | | | | | | | | |
| 31 October 2008 | As stated above | $0.49 | 2,000,000 | - | - | - | 2,000,000 | - |
| 18 July 2008 | As stated above | $0.49 | 1,312,500 | - | - | 37,500 | 1,275,000 | - |
| 12 March 2007 | As stated above | $1.03 | 2,000,000 | - | - | - | 2,000,000 | 400,000 |
| 15 June 2007 | As stated above | $1.03 | 1,100,000 | - | - | 62,500 | 1,037,500 | 250,000 |
| **Total** | | | 6,412,500 | - | - | 100,000 | 6,312,500 | 650,000 |

| Grant Date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| | | | Number | Number | Number | Number | Number | Number |
| **Consolidated 2009** | | | | | | | | |
| 31 October 2008 | As stated above | $0.49 | | 2,000,000 | | - | 2,000,000 | - |
| 18 July 2008 | As stated above | $0.49 | | 1,437,500 | | 125,000 | 1,312,500 | - |
| 12 March 2007 | As stated above | $1.03 | 2,000,000 | - | - | - | 2,000,000 | 400,000 |
| 15 June 2007 | As stated above | $1.03 | 1,250,000 | - | - | 150,000 | 1,100,000 | 250,000 |
| **Total** | | | 3,250,000 | 3,437,500 | - | 275,000 | 6,412,500 | 650,000 |

## 35 Share-based payments (continued)

### (c) Employee share scheme

An employee of the Company with at least three months' service is eligible to participate in the employee share plan in accordance with terms and conditions disclosed in the Company's Prospectus issued in 2000.

The plan provides for eligible employees to acquire ordinary shares in Collection House Limited at a price determined by the directors. Historically, the market price was determined by reference to the average volume weighted share price of shares for the five business days prior to and including 30 June.

On application, employees must pay application monies of at least 10% of the value of the share offer. Collection House Limited may, at its discretion, lend the employee such monies as is required to complete the share purchase. Interest is charged monthly on outstanding loan balances at a rate determined by the directors, which is currently 6% per annum. Repayment of the loan balance is required within two years or the employee's right to the shares will be forfeited with the current net market price less the outstanding loan balance refunded to the employee.

The shares vest immediately upon acquisition but are not able to be traded until the later of ninety days from the acquisition date or the date on which the outstanding loan balance has been fully repaid.

No shares were issued under this plan in the year ended 30 June 2010 (2009: nil shares issued).

The amount recognised in the financial statements of the consolidated entity in relation to employee shares issued in prior years were:

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Employee loans | 0 | 0 |
| | 0 | 0 |

#### Fair value of options granted

The assessed fair value at grant date of all options granted is set out above. The fair value at grant date is independently determined using a Monte Carlo option pricing model in relation to MD/CEO 1 and EXEC1 options and a combination of Bermudan and Barrier - style option pricing model in relation to MD/CEO 2 and EXEC2 options that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the respective options.

## 36 Events occurring after the reporting period

### Dividend

A fully franked final dividend of 3.0 cents, totalling $2.9 million, has been declared, payable on 26th November, 2010. No provision has been raised in these accounts.

### Managing Director / Chief Executive Officer

On 31 July 2010, Mr Tony Aveling, Managing Director and Chief Executive Officer retired and ceased to be an employee and a director of Collection House Limited.

On 1 August 2010, Mr Matthew Thomas was appointed as Chief Executive Officer of Collection House Limited. Mr Thomas is not a director of Collection House Limited.

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

| | Consolidated | |
|---|---|---|
| | 30 June 2010 $'000 | 30 June 2009 $'000 |
| Profit for the year | 8,923 | 7,854 |
| Depreciation, amortisation and impairment | 2,619 | 2,295 |
| Fair value losses on other financial assets | 29,879 | 30,265 |
| Non-cash employee benefits expense - share-based payments | 173 | 403 |
| Restructuring expense | - | 655 |
| Stamp duty related expenses written back | - | (1,344) |
| Provision for doubtful debts | (3) | (127) |
| Assets written off | 61 | 1,184 |
| Other non-cash expenses | 321 | (71) |
| Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of machinery hire division | | |
| (Increase) in trade debtors and bills of exchange | 241 | 651 |
| (Increase) decrease in sundry debtors | 300 | (883) |
| (Increase) decrease in current tax receivables | - | 2,312 |
| (Increase) decrease in other assets | (362) | (281) |
| (Increase) decrease in non-current assets | (580) | (606) |
| Increase (decrease) in trade creditors | (415) | 820 |
| Increase (decrease) in sundry creditors and accruals | (152) | (1,395) |
| Increase (decrease) in current tax liability | (752) | 1,595 |
| Increase (decrease) in deferred tax liabilities | (500) | (2,709) |
| Net cash inflow (outflow) from operating activities | 39,753 | 40,618 |

## 38 Parent entity financial information

### (a) Summary financial information

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

| | Company | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **Balance sheet** | | |
| Current assets | 3,789 | 4,281 |
| Non-current assets | 170,004 | 193,418 |
| Total assets | 173,793 | 197,699 |
| Current liabilities | (13,367) | (21,567) |
| Non-current liabilities | (86,753) | (91,740) |
| Total liabilities | (100,120) | (113,307) |
| **Shareholders' equity** | | |
| Contributed equity | 67,256 | 67,256 |
| Reserves | 1,050 | 878 |
| Retained earnings | 5,367 | 16,258 |
| Capital and reserves attributable to owners of Collection House Limited | 73,673 | 84,392 |
| **Profit/(Loss) for the year** | (5,813) | 11,746 |
| **Total comprehensive income** | (5,813) | 11,746 |

### (b) Guarantees entered into by the parent entity

The parent entity has entered into a deed of cross guarantee with certain of its subsidiaries as set out in Note 30(b).

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

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please see above.

# Directors' Declaration

30 June 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 38 to 99 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable,and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

**John Pearce**
*Chairman*

Brisbane
25 August 2010

lawler hacketts chartered accountants

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COLLECTION HOUSE LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Collection House Limited and its controlled entities (the consolidated entity), which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements of Collection House Limited comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Lawler Hacketts Audit
ABN 33 873 151 348

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*Auditor's Opinion*

In our opinion:

a) the financial report of Collection House Limited is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report (Sections A to E) included in the directors' report for the year ended 30 June 2010. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report (Sections A to E) of Collection House Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

**Matters relating to the electronic presentation of the audited financial report**

This auditor's report relates to the financial report and remuneration disclosures of Collection House Limited (the consolidated entity) for the year ended 30 June 2010 included on Collection House Limited's web site. The company's directors are responsible for the integrity of the Collection House Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the statements and remuneration disclosures named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Lawler Hacketts

**LAWLER HACKETTS AUDIT**

**Liam Murphy**
**Partner**
**Brisbane, 25 August 2010**

The shareholder information set out below was applicable as at 16 August 2010.

## A. DISTRIBUTION OF EQUITY SECURITIES

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

| | Class of equity security | |
|---|---|---|
| | Ordinary shares | |
| | Holders | Shares |
| 1-1000 | 524 | 339,055 |
| 1,001-5000 | 999 | 2,727,570 |
| 5,001-10,000 | 292 | 2,332,796 |
| 10,001-100,000 | 363 | 10,681,060 |
| 100,001 and over | 58 | 81,241,400 |
| **Total** | 2236 | 97,321,881 |

There were 261 holders of less than a marketable parcel of ordinary shares.

## B. EQUITY SECURITY HOLDERS

### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Units | % of issued capital |
|---|---|---|
| Mr Dennis George Punches | 17,907,384 | 18.40 |
| Trans Tasman Collections Investments Pty Ltd | 9,997,798 | 10.27 |
| HSBC Custody Nominees (Australia) Limited | 9,098,509 | 9.35 |
| National Nominees Limited | 7,102,235 | 7.30 |
| George Laurens (Qld) Pty Ltd (Pearce Family A/C) | 6,987,925 | 7.18 |
| Ankla Pty Ltd | 4,725,569 | 4.86 |
| Mr John Marshall Pearce and Mrs Sandra Anne Pearce (Collection House S/Fund Account) | 4,335,905 | 4.46 |
| Mr Anthony Francis Coutts and Mrs Jennifer Elsie Coutts (Coutts S/Fund A/C) | 2,707,000 | 2.78 |
| Citicorp Nominees Pty Limited | 2,198,367 | 2.26 |
| HSBC Custody Nominees (Australia) Limited – GSCO ECA | 1,874,044 | 1.93 |
| Anthony Coutts and Jennifer Coutts (The Coutts Family A/C) | 1,727,000 | 1.77 |
| Mr William Walter Kagel | 951,269 | 0.98 |
| Mr Philip Julian Eriksen and Mr Julian Hans Eriksen (Ace A/C) | 806,183 | 0.83 |
| Mr Lev Mizikovsky and Mrs Emily Dorothy Mizikovsky (Superfun Superfund A/C) | 684,363 | 0.70 |
| Sunstar Australia Pty Ltd | 657,895 | 0.68 |
| Jasscove Pty Ltd (Walker Family Account) | 600,000 | 0.62 |
| George Laurens (WA) Pty Ltd (Laurens Super Fund A/C) | 500,000 | 0.51 |
| Mooloolaba Consulting Pty Ltd (Super Fund A/C) | 500,000 | 0.51 |
| Mr Raymond Larkin | 500,000 | 0.51 |
| TBIC Pty Ltd (Crommelin Family Super A/C) | 416,705 | 0.43 |
| **Total** | 74,278,151 | 76.33 |

### Unquoted equity securities

The following ordinary share options have been issued to the MD/CEO, as part of his employment agreement and certain of the company's executives. Details of these options are set out at note 35 of the financial statements.

| Grant date | Balance at 1 July 2009 | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **MD/CEO OPTIONS** | | | | | |
| 31 October 2008 | 2,000,000 | | | | 2,000,000 |
| 12 March 2007 | 2,000,000 | | | | 2,000,000 |
| **EXECUTIVE OPTIONS*** | | | | | |
| 18 July 2008 | 1,312,500 | | | 37,500 | 1,275,000 |
| 15 June 2007 | 1,100,000 | | | 62,500 | 1,037,500 |

*No executive holds 20% or more of these securities.

### Restricted securities

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

### Voluntary restrictions on securities

Employees who participate in the Collection House Employee Share Plan are required to enter into voluntary escrow arrangements with the Company, undertaking not to dispose of any of these shares for 12 months from the date of issue of the relevant shares. Details of the Employee Share Plan are set out in note 35 of the financial statements.

Under the Collection House Employee Share Plan and Collection House Executive Share Option Plan, employees may be entitled to acquire shares under an employee loan facility. Employee shares that are subject to an employee loan at the time that the voluntary escrow period expires remain restricted until the relevant employee loan is discharged. As at 16 August 2010, no shares are restricted on this basis. Shares restricted under voluntary arrangements rank pari passu with all fully paid ordinary shares in all other respects.

## C. SUBSTANTIAL HOLDERS

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

| Holder | Units | % of issued capital |
|---|---|---|
| Dennis George Punches (combined shareholdings) | 17,907,384 | 18.40 |
| John Marshall Pearce and Sandra Anne Pearce/George Laurens (Qld) Pty Ltd (combined shareholdings) | 11,461,015 | 11.78 |
| Mackenzie Financial Corporation | 11,071,870 | 11.38 |
| Trans Tasman Collections Investments Pty Limited | 9,997,798 | 10.27 |
| HSBC Custody Nominees (Australia) Limited | 9,098,509 | 9.35 |
| National Nominees Limited | 7,102,235 | 7.30 |
| Mr Lev Mizikovsky, Ankla Pty Ltd and Sunstar Australia Pty Ltd (combined shareholdings) | 6,165,204 | 6.33 |

## D. VOTING RIGHTS

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

### (a) Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### (b) Options

No voting rights.

## Head Office

### Collection House Limited
ABN 74 010 230 716

Level 7
515 St Paul's Terrace
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Website: www.collectionhouse.com.au

## Locations

### Australia

Brisbane
Ballarat
Sydney
Bendigo
Melbourne
Newcastle
Adelaide
Shepparton

### New Zealand

Auckland

## Stock Exchange Listings

Collection House Limited shares are listed on the Australian Stock Exchange. The home exchange is Brisbane.

ASX Code: CLH

## Company Secretary

### Michael Watkins

Phone: +61 7 3100 1229
Facsimile: +61 3414 7525

## Auditors

### Lawler Hacketts Audit

Level 3
549 Queen Street
Brisbane Qld 4000

## Share Registry

### Computershare Investor Services Pty Limited

GPO Box 242
Melbourne, VIC 3001
AUSTRALIA

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Your Proxy form may be faxed to Computershare on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

To access your account or change your details, please visit the Computershare website at www.computershare.com