Why
Collection House?

Annual Report 2012

Contents

Notice of Annual General Meeting

The Annual General Meeting of Collection House Limited will be held on 25 October 2012 at 11.00am at the Emporium Hotel 1000 Ann Street, Fortitude Valley, Brisbane, Queensland.

A formal Notice of Meeting, Explanatory Memorandum and Proxy form are enclosed with this report.

Who we are

Collection House Limited is Australasia's largest professional services Group delivering Receivables Management Services. Our services measurably improve the financial viability and performance of our clients. Our services provide an end to end offering, from credit risk consulting, legal and collection recovery services to the purchase of charged off receivables ledgers.

our plan

We continue to pursue a strategy based on leveraging our strengths while mitigating weaknesses and risks.

The Collection House group has a dedicated strategy team which focus on long-term value creation and the identification and execution of strategically important projects.

With a three year planning horizon, this team ensures that we are making appropriate investments in emerging and future markets and new services, to enhance our competitive advantage. *(refer diagram below)*

Our strategic initiatives are:

To develop people, by engaging and investing in our workforce and developing talent as a primary driver of business growth.

To grow, by expanding our 'one stop shop' advantage, engaging in broader markets, and introducing evolved products to new and existing clients.

To differentiate, by enhancing our leadership in ethical and compliance collections, and by emphasising customer collaboration in collection practice as 'our way' of doing smart business.

To innovate, to build productivity and contain costs through efficiencies and effective process.

The One Company approach

We will continue to enhance our end-to-end receivables management solutions by leveraging assets and capabilities which offer adjacent value for clients and enhance group profitability. As we build this 'one stop shop' of receivables management services, additional vertical opportunities become apparent through our strong core relationships with our long-term clients.

This approach allows Collection House to exploit emerging markets due to our specialist knowledge, technology and capability, while providing complementary ways for clients to optimise their cash flow, leading to higher profitability and growth.

The growth plan is set

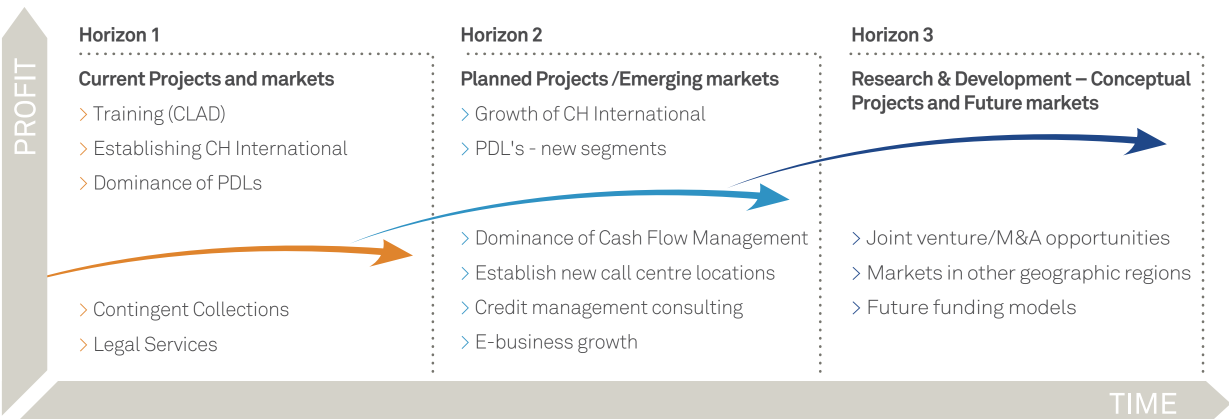
Our offshore expansion will provide a sound platform for enhanced cost effective solutions to our blue-chip client base, while strictly preserving our culture of ethical and compliant collections and quality standards.

We will be increasingly active in leveraging our technology platform, expanding our e-business services and continuing to grow a focused analytics team which will lead to stronger collection outcomes.

Our strong relationships and market leading position enable us to pioneer new concepts and services which will drive future value creation. These include the first significant consumer energy debt purchase and the first forward flow purchase of Part 9 Insolvency Accounts during the year.

Prudent capital and risk management will be adhered to throughout all future expansion, to ensure growth is sustainable and based on long-term shareholder value creation.

Over the past five years, Collection House has delivered 15% growth in net profit after tax. Our growth strategy will enable comparable double-digit growth over the longer-term.




Expand into non-banking sectors
Enlarge geographic footprint
GROWTH PLAN
Organic growth with current clients
Enhance product service offering

our model

The Collection House group comprises of three primary collection divisions:

- Commission Collections;
- Cash Flow Management as Collection House; and
- Purchased Debt Ledger recoveries that are owned by Lion Finance.

Specialist and supporting services include:

- Midstate Credit Management Services Pty Ltd, a specialist in local government debt recovery;
- Jones King Lawyers Pty Ltd, provider of in-house and third party legal services;
- Collective Learning and Development Pty Ltd, a registered training organisation; and
- CashFlow Accelerator, a credit consultancy and provider of assessment services.

Our diversified range of services benefits our clients by providing a 'one stop shop' of receivables management solutions. This enables clients to obtain assistance on a wide variety of needs through a single point of contact.

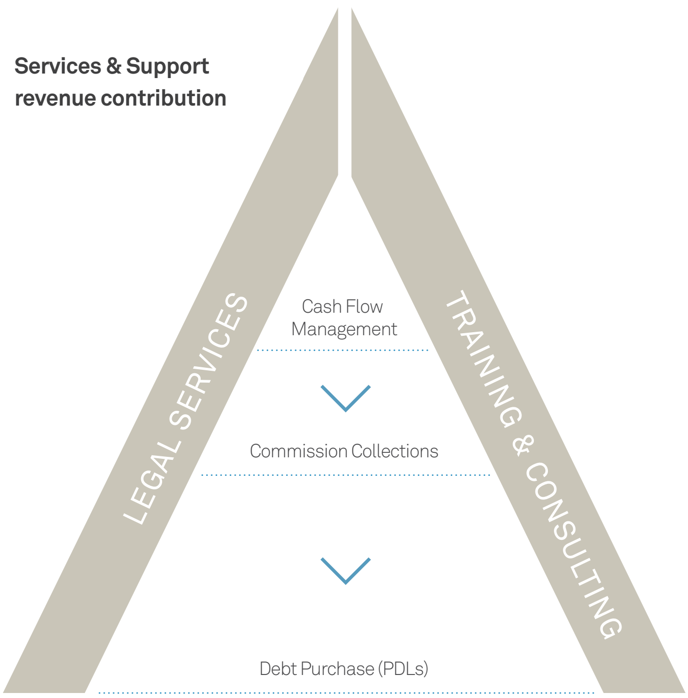
From a corporate perspective, our diversification mitigates risk in a number of ways.

It reduces our dependency on any particular market and enables the business to adapt to different market conditions. If purchased debt ledgers are not available at acceptable price levels or there is a decline in the volume of work referred on commission, business can be generated through our other services. Market conditions are generally cyclic and counteract each other so less debt sales often means more commission work.

Our diverse experience benefits our business intrinsically. Our purchased debt business remains our largest segment and most debt available for sale has previously been subject to recovery action by the original creditor and/or outsourced to mercantile agents. At times, we have worked the same (or similar) accounts for a client and these accounts are subsequently sold on the purchased debt market, giving us a unique insight into the value of the accounts.

When Collection House has not had knowledge of accounts prior to sale, we will often have a good understanding of how pre-sale recovery action impacts the intrinsic value of the debt. Our strong client relationships place us in a leading position to be selected as a buyer of choice, due to our performance and price paid for debts and our ethical and compliant reputation.

There are valuable synergies between our operating divisions and specialist and support services which combine to create the most comprehensive receivables management offering in the Australian and New Zealand markets.



Diversity delivers competitive advantage

- Collection House has a more diverse product/service offering than its major competitors.

	Credit Risk Consulting	Credit Mgt Training	Cash Flow Mgt	Consumer Collections	Insurance Collections	Purchased Debt Ledgers	In-house Legal Services
Collection House Limited	●	●	●	●	●	●	●
Advanced Debt Recovery						●	
ARMS Global Group	●	●		●	●		●
Austral Mercantile Collection				●	●		●
Australian Receivables Limited			●	●		●	
Baycorp Australia			●	●		●	●
Charter Mercantile (Australia)				●			●
Credit Corp Group Ltd				●		●	●
Dunn & Bradstreet (Australia) Pty Ltd		●	●				
National Credit Management Limited			●		●	●	
Recoveries Corporation Pty Ltd				●	●		●

source: publicly available information

Operational segments

Company	Function	Brands
Collection House Limited	Debt collection and receivables management	Collection House Limited Leading the way
Jones King Lawyers Pty Ltd	Legal services including insolvency administration	JONES KING
Lion Finance Pty Ltd	Debt purchasing and recovery	lionfinance pty ltd
Midstate Credit Management Services Pty Ltd	Debt collection services specialising in local government	midstate
Collective Learning and Development Pty Ltd	Credit management and related training services	Collective Learning and Development Pty Ltd
CashFlow Accelerator Pty Ltd	Credit management and related training services	CASHFLOW ACCELERATOR

our culture

Ethical team driving our growth

Receivables management activities require a high degree of sensitivity. We have instilled in our staff the importance of acting ethically and with integrity, while complying with client agreements, legislation and regulatory requirements.

Our team are the best in the business and conduct themselves in a manner that ensures customers are treated fairly and reasonably, with courtesy, empathy, consideration and respect.

Professional training sets us apart

Training is an integral part of the Collection House culture and employees work towards nationally recognised training qualifications. Structured programs cover operational training and compliance issues training.

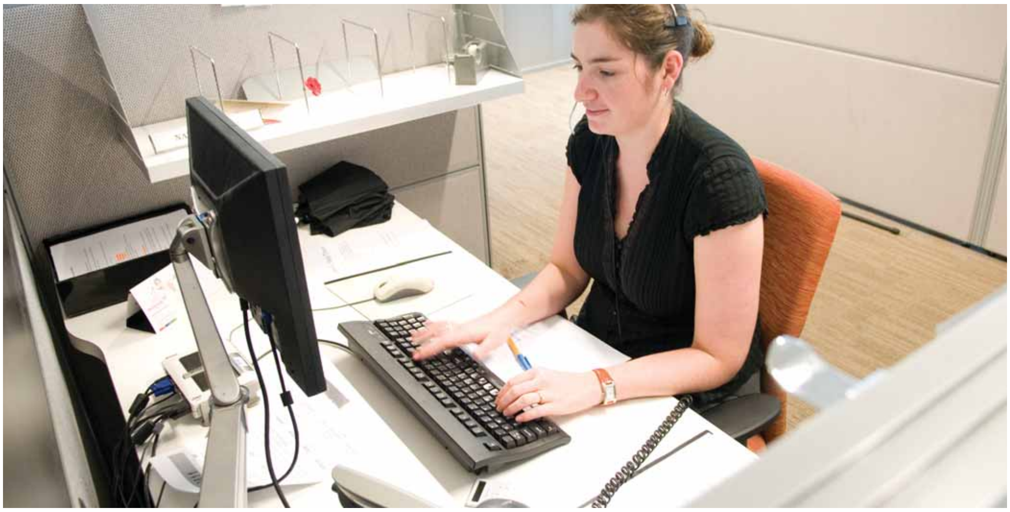
Employees are encouraged to take an active role in their individual ongoing development with career goals and objectives forming a key component of the annual performance review process. We recognise the importance of developing talent internally and have structured a management development program which seeks to address the leadership and succession skills identified in our competency framework. This program will help to develop the leadership potential of our high performers and create career opportunities within the business.

Attracting and keeping the best talent

One of our corporate objectives is to be viewed by our staff as a first class working environment. We are proud of our culture and the opportunities we provide our employees. We define, measure and reward the performance of our employees by setting challenging, yet achievable targets: measuring progress, rewarding achievement and celebrating success.

Many staff are eligible for monthly performance bonuses and have access to an established benefits program called "What's in it for me?" that includes study assistance and an employee well-being program.

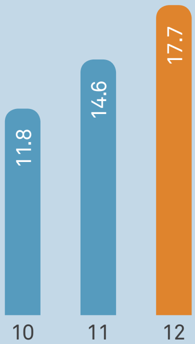
In recent years we have implemented action plans to drive employee engagement. Annual surveys enable us to measure staff engagement and our 2012 score demonstrated a marked improvement. This is an important measure in our business and will remain a key objective for our business leaders.



our results

Financial

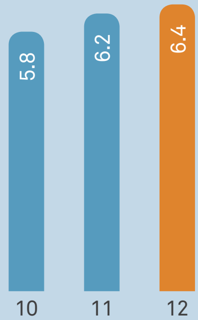
Profit before tax
$M



^22%

Profit before tax up to $17.7M in FY12

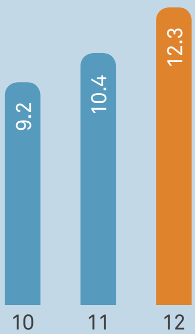
Dividends per share
Cents



^3%

Dividends per share up to 6.4c in FY12

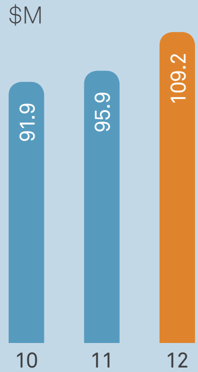
Earnings per share
Cents



^18%

Earnings per share up to 12.3c in FY12

Shareholders equity
$M



^14%

Shareholder equity up to $109.2M in FY12

Operational

^13.7%

Purchased debt collections up to $89M

^24%

Repayment Arrangement and Litigated Account Portfolio book up to $274M

Chairman’s Report

‘We’re well positioned for growth as we start our third decade’

Dear fellow Shareholder,

Collection House continues its strong growth momentum and has a sound plan for growth and a business model that offers predictable cash flow profiles.

I was delighted to be appointed as Chairman of the Board of Directors at Collection House Limited in March this year.

I am excited about the future of Collection House and can see great potential and opportunities for its stakeholders. The Company has a sound plan for growth over the next three to five financial years. It will continue its profit growth story, strong dividend yield and a measured approach to capital management, while building on productivity and containing costs through efficiencies and effective processes.

Our specific focus is to work towards improving the key performance metrics of the business including:

- Return on equity
- Gearing ratio (debt/debt & equity)
- EBIT margin

The Company will also increase its investor and market communications to better explain our business model – a model that offers shareholders predictable cash flow profiles.

The debt collection industry in Australia is expected to grow by approximately 7% per annum over the next three to five years, after emerging from a difficult period. Despite the deterioration in the global outlook and fragile global financial sentiment, our local economy remains broadly positive with good growth prospects.

In our own business, we have continued to invest in our future and remain confident that these initiatives will continue to underpin our growth prospects.

We will selectively acquire debt ledgers during the coming years if the essential elements of our analytical assessment of those ledgers are sound and priced competitively.

Collection House will also seek to optimise its capital management to improve shareholder value.

In terms of the 2012 financial year, I am pleased to report that the Company had an excellent year under the stewardship of CEO, Matt Thomas and his experienced and focused management team. I would like to take this opportunity to thank Matt and the team at Collection House for their dedication and commitment to our goals.

I would like to also thank John Pearce for his important and inspirational contribution as Chairman and as a founding Director of Collection House over the past 20 years.

Congratulations John, we are pleased that you will continue as a Director of the Company and bring your specialist knowledge and experience of the debt collection industry to the Board.

The Board and I are enthusiastic about the challenges and opportunities ahead and will work with management to achieve optimal results for all stakeholders.

David Liddy
Chairman

Chief Executive Officer’s Review

‘Another year of growth, increased profits, return on equity and dividends to shareholders’

We have a robust business model that will continue to deliver year-on-year growth.

Over the past three years, we have increased our pre-tax profits at an annual rate exceeding 20%. I am very proud of this achievement and we made sound progress during the year to ensure this positive growth trend continues.

With each passing year, we dedicate more time and resources to building our long-term growth platform to exploit emerging market opportunities and meet new, but un-serviced business opportunities. During the year we established a new strategic projects team to focus on future value creation and ensure sufficient corporate resources are apportioned between present and future project initiatives.

This long-term view drives our awareness of the importance of prudent risk management and governance and our strict adherence to our corporate values of **Integrity, Excellence, Understanding, Ethics** and **Teamwork.**

Highlights

Net profit after tax (NPAT) increased 26% to $12.7 million, following a 15% increase in Purchased Debt Ledger (PDL) collections and other revenue and a continuing focus on cost control. Notwithstanding a modest capital raising in November 2011, earnings per share increased 18% and dividends per share rose 3%.

Drawn debt for PDL acquisitions increased to $85 million. A 46% debt/carrying value ratio was maintained for the third consecutive year, well below the banking covenant limit of 55%. As the least expensive source of available capital to fund PDL investments, manageable levels of debt on the balance sheet are a typical aspect of the Purchased Debt business model. Profitable acquisition opportunities are available in the market, but purchasing discipline will be maintained.

Within the PDL portfolio, repayment arrangements and litigated accounts, offer predictable cash flow profiles. The PDL portfolio under such arrangements $274 million in face value as at 30 June 2012.

^26%

NPAT up to $12.7M in FY12

^27%

EBIT margin increase in FY12

We have increased our investment in business analytics and now have sufficient tools and knowledge in-house to quickly create and deploy sophisticated scoring models to optimise outcomes in many areas of the business. This investment is expected to continue to grow in light of impressive returns achieved on projects to date.

Investments with longer-term benefits not yet manifesting in our results include the formation of Collection House International BPO, Inc. based in Manila, Philippines. The business has 39 staff and is expected to be cash positive by 2H13 when staff productivity improves.

The ongoing redevelopment of the Controller collection software under Project "C5" is another key achievement. A key billing module was successfully commissioned in June 2012 and several new collection modules are in User Acceptance Testing, ahead of further business deployment later in the year.

Outlook

I look forward to our business continuing to deliver growth. Our solid business model offers an end-to-end product that enables us to extend and deepen our client base. We will continue to focus on productivity in Australia and New Zealand and extract value from our new offshore operations.

Our people are integral to the success of Collection House and I would like to sincerely thank them for their very important contribution over the past 12 months.

Matt Thomas
Chief Executive Officer

our performance

Purchased Debt

Our wholly owned debt purchase subsidiary, Lion Finance Pty Ltd (Lion), remains the largest division of Collection House. Lion contributed 57% of the group's revenue in 2011/12. Investment in debt purchased over the year totalled $61 million, up 24% from the prior year.

The number of accounts under formal repayment arrangements and/or subject to litigation is an important component of the Lion portfolio. The face value of this part of the overall portfolio grew 24% to $274 million.

Lion has established two operational teams in Manila as part of the establishment of Collection House International BPO, Inc. to win opportunities in lower price segments. We also expanded our Australian based team in the past 12 months and by June 2012 we employed 275 Lion staff.

During the year a more structured campaign management model was implemented, with analyst driven campaigns driving an increasing proportion of automated customer contacts and letters.

Commission Collections

Despite industry trends, Commission Collections, our traditional business, continued to be a profitable division exceeding revenue expectations and delivering improved margins. This was due to the retention of all key clients, a long serving team and the ongoing refinement of our classic collections model.

As credit providers move to pro-actively manage collections much earlier in the delinquency cycle, the move on debt sale and forward flow agreements will present challenges. To maintain future margins and ensure the business remains competitive, Commission Collections has launched an offshore operation in Manila, Philippines which is progressing well.

Cash Flow Management

Cash Flow Management, essentially pre-write off instalment collections, exceeded profit and revenue expectations through the delivery of solid results to new and existing clients. More clients are turning to us to lead the way to manage early stage delinquency levels and improve their overall loss provisions. During the year, two major Australian banks became clients and Cash Flow Management manages their secured and unsecured portfolios.

Marketing our success to new client prospects operating in similar industries to our existing clients is a key focus as we build on our position as an industry leading collections solution.

CashFlow Accelerator Pty Ltd

CashFlow Accelerator is a consultancy service specialised in the analysis of credit functions and performance. This analysis, which is now available as an online tool, identifies specific, relevant business opportunities to foster positive growth, increase returns and optimise cash flow.

Specialist Services

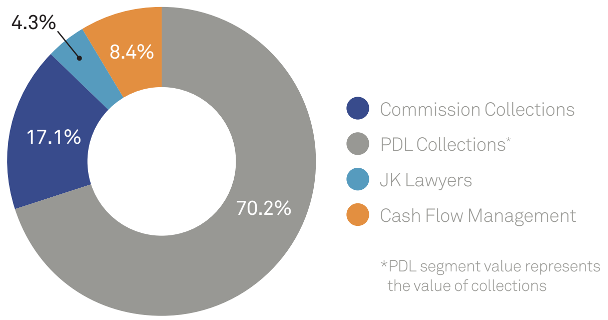
Jones King Lawyers Pty Ltd
Our in-house legal recovery and insolvency administration subsidiary provides clients with access to cost effective and highly specialised legal recovery services. Jones King Lawyers operates in Queensland, New South Wales and Victoria with an affiliated practice in South Australia. Established as an incorporated legal practice in 2005, Jones King Lawyers manages in excess of 7,000 debt recovery matters for Collection House, Lion Finance and third party clients. The law firm also manages approximately 38,500 insolvency administrations representing personal insolvent debt in excess of $250 million.

Midstate Credit Management Services Pty Ltd
Midstate Credit Management Services is an established commercial agency that specialises in local government and offers a diverse range of collection and credit consulting services. Midstate operates in Ballarat, Bendigo and Shepparton in country Victoria and acts for 29 local government councils in Victoria and four local government councils in New South Wales.

Collective Learning and Development Pty Ltd (CLAD)
CLAD is a Registered Training Organisation that provides companies with relevant, up-to-date high quality development, educational and training services. These services include nationally recognised qualifications to assist companies to achieve desired collection results.

CLAD provides staff development and training services to private enterprises and to the public sector. Clients include Department of Human Services – Child Support Agency, Collection House, Lion Finance Pty Ltd, MBC Global Pty Ltd (previously Minol Australia Pty Ltd), Jones Kings Lawyers Pty Ltd and Midstate Credit Management Services Pty Ltd.

Revenues by Service



‘Over the 10 years since the partnership commenced, CLH have a proven performance record, and we believe our portfolio arrears performance to be among the lowest in our market.’

St George

our reputation

Collection House adopts a balanced approach to address the economic, social and environmental impact of our business decisions and activities to benefit people, communities and society.

Community engagement program

In March 2011, Collection House launched its Community Engagement Program (CEP) to nurture relationships with stakeholder groups such as financial counsellors and industry bodies in the not-for-profit community sector.

Our CEP is designed to improve our understanding and interaction with our community stakeholders. We share the same goal – to assist our mutual customers to solve their financial problems – and believe we can use our industry expertise to assist.

Our front-line staff are trained to deal with financial counsellors, bearing in mind that these groups act on behalf of customers who are often experiencing financial hardship and other sensitive issues. These groups can directly contact the Compliance team when a matter may be sensitive or complex, or where they feel a particular negotiation has stalled and would benefit from a review.

We recently sponsored and attended the annual conferences of the Financial Association of Queensland (FCAQ) and Financial Counsellors Australia (FCA). Our participation was well-received by attendees who gave us valuable feedback on how we can further improve our interaction with our customers and these organisations.

We have assisted the Financial Counsellors Association of NSW (FCAN) with their training program for financial counsellors and engaged with their Creditors Liaison Committee to share ideas and feedback.

Meetings have been progressively held with other community organisations such as Community Legal Centres and Legal Aids. Feedback about Collection House has been positive and it is pleasing to hear that we are regarded by many of these organisations as the industry benchmark due to our willingness to engage.

Other key components of our CEP include our Corporate Giving program which enables staff to make regular pre-tax donations to a selected not-for-profit organisation. We also offer a community volunteering program where staff are provided leave to engage in volunteer work with a not-for-profit community organisation.

Supporting the environment

Attracting and retaining quality employees is a primary business objective. To support this objective our Brisbane Head Office and many of our business branches have optimum working environments.

Our Head Office is located at Green Square North Tower which has achieved a coveted *6 star Green Star rating* under the Green Building Council of Australia Scheme, an environmental rating tool which evaluates the environmental performance of buildings based on extensive criteria. The office has also been fitted-out with many environmentally friendly facilities.

Collection House is committed to *fostering the sustainable use of the earth's resources* and has implemented an Environmental Management Policy (EMP) which is compliant with all relevant environmental legislation.

Key focus areas of our EMP include:

- integrating environmental management into business decision making at all levels;
- reducing cost through better resource procurement, usage and waste management;
- setting objectives and targets for continuous improvement;
- monitoring, reporting and reviewing achievements;
- exploring best practice and innovative environmental management approaches to the use of technology, property and related resources; and
- building an environmentally aware business culture.

Financial Basics Foundation

Ten years ago Collection House established Financial Basics Foundation, a not-for-profit organisation, to help educate secondary students about the credit system and responsible financial management practices. Since its inception, Collection House has donated over $1.3 million and continues to support the Foundation financially and in-kind.

The Foundation provides an online, interactive teaching resource known as 'ESSI Money' and provides a simulation of real-life events to help students experience the effects of Earning, Saving, Spending and Investing. Since its release in 2007, 17,102 Australian school students have completed the game. In 2011, ESSI Money was the vehicle for a national financial literacy competition and around 2,230 students participated for the opportunity to win $1,000 for themselves and $4,000 for their school.

As part of the Financial Basics Foundation program, Australian educators are provided with a set of 11 modules containing teacher notes and student worksheets titled 'Operational Financial Literacy'. This resource is free and is currently used in 1,767 secondary schools across the country.

Ensuring the relevance and currency of the material is an ongoing priority for the Foundation and a review and update of this resource is currently being undertaken.

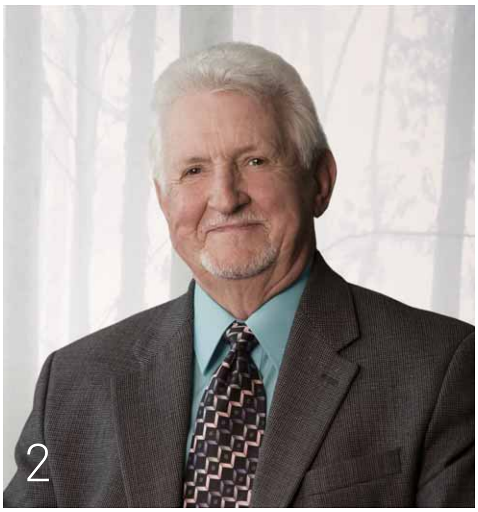
During the year, the Board of Directors appointed two part-time Program Managers to expand the work of the Foundation. As a result, the Foundation has recently moved into the provision of professional development sessions for Australian commerce and mathematics teachers through presentations at state conferences and subject area meetings.

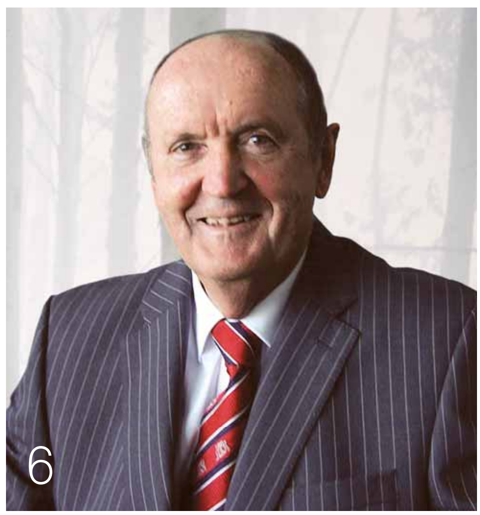
The recent introduction of a quarterly electronic newsletter, *'Principles and Interest'* provides teachers with ideas and resources, together with commentary on various developments in the Australian educational arena.

The Foundation has recently completed an extensive survey of its members to lay the groundwork for its continued growth and vision to educate young people to be financially literate.

Board of Directors

1. David Liddy Chairman
2. Dennis Punches Deputy Chairman
3. John Pearce Director
4. Tony Coutts Independent Director
5. Kerry Daly Independent Director
6. David Gray Independent Director





Executive Team

clockwise from seated:

Matt Thomas Chief Executive Officer

Kylie Lynam General Manager, Human Resources and Corporate Services

Michael Watkins General Counsel and Company Secretary

Adrian Ralston Chief Financial Officer

Corporate Governance Statement

The Collection House Limited Board is committed to the implementation and maintenance of good corporate governance practices.

This Statement sets out the extent to which Collection House Limited (Collection House) has followed the best practice recommendations set by the ASX Corporate Governance Council (the Principles and Recommendations) during the year ending 30 June 2012.

PRINCIPLE 1

Lay solid foundations for management and oversight

Functions reserved for the Board

The Board is responsible for guiding and monitoring Collection House on behalf of its shareholders. In addition, the Board (in conjunction with management) is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board has adopted a formal Board of Directors' Charter which sets out a list of specific functions which are reserved for the Board.

Board appointments are made pursuant to formal terms of appointment.

Functions delegated to senior executives

Collection House's senior executives have responsibility for matters which are not specifically reserved for the Board, such as the day-to-day management of the operations and administration of Collection House.

Process for evaluating the performance of senior executives

Collection House has established processes for evaluating the performance of its senior executives. In summary, each senior executive is evaluated against the achievement of agreed performance objectives. The evaluation process is conducted annually and is followed by the determination of appropriate remuneration for the relevant senior executive.

Detailed information regarding Collection House's remuneration practices is provided in the Remuneration Report. Senior executives were evaluated at the end of the financial year and in accordance with the processes described in the Remuneration Report.

Induction process for new executives

Collection House executives are required to undertake formal induction training and informal training via a series of meetings with incumbent executives.

At a minimum, new executives are provided training on:

- the history and development of the Collection House brands and businesses;
- the main legal and regulatory obligations affecting the Collection House businesses; and
- the rights and obligations of Collection House employees.

More information

A copy of the Collection House Board of Directors' Charter is available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 2

Structure the Board to add value

Composition of the Board

As at the date of this Statement, the Board comprises the following six Directors:

- David Liddy

Independent Non-executive Chairman

- Dennis Punches

Non-executive Deputy Chairman

- John Pearce

Non-executive Director

- Tony Coutts

Independent, Non-executive Director

- Kerry Daly

Independent, Non-executive Director

- David Gray

Independent, Non-executive Director

Mr William Kagel retired on 28 October 2011.

Mr John Pearce stood down from the position of Chairman on 27 March 2012.

Information about each current Director's qualifications, experience and period in office is set out in the Directors' Statutory Report.

The roles of Chair and Chief Executive Officer are exercised by separate persons. David Liddy acts as Chairman and Matthew Thomas as Chief Executive Officer.

Relationships affecting independence

The Collection House Board is currently comprised of six Directors, four of whom are Independent Directors. A majority of Directors are therefore independent.

During the year, there were three Board changes (the appointment of Mr Liddy as Director and Chairman, Mr Pearce stepping down as Chairman and the retirement of Mr Kagel).

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.

Departure from Recommendation 2.2: The Principles and Recommendations recommend that the Chair of the Board should be an independent Director.

During the period 1 July 2011 to 27 March 2012, Collection House's Chairman, Mr Pearce, was not an Independent Director due to his substantial shareholding in the Company. On 27 March 2012, Mr Pearce voluntarily stepped down as Chairman. Notwithstanding, the Board does not consider there were any matters that materially interfered with the exercise by Mr Pearce (before 27 March 2012) of his unfettered and independent judgment as Chairman.

Compliance with Recommendation 2.2: On and from 27 March 2012, David Liddy was appointed as Chairman. As at 30 June 2012, the Chairman, Mr Liddy was an Independent Non-executive Director.

Procedure for selection and appointment of new Directors

When considering the selection and appointment of a new Director, Collection House adheres to procedures (Selection Procedure) including:

- the qualifications, experience and skills appropriate for an appointee, having regard to those of the existing Board members and likely changes to the Board are considered;
- upon identifying a potential appointee, specific consideration is given to that candidates:
  - competencies and qualifications;
  - independence;
  - other directorships and time availability; and
  - the effect of their appointment on the overall balance and composition of the Board.

The duties, responsibilities and powers of Collection House Board extend to reviewing the Selection Procedure and making appropriate recommendations in relation to the Selection Procedure. The Board is responsible for implementing the Selection Procedure and developing succession plans to maintain appropriate experience, expertise and diversity.

The re-appointment procedures for incumbent Directors are outlined in Collection House's Constitution and in the Board of Directors' Charter. In summary, subject to the specific matters described in the Constitution, an election of Directors must take place each year at which one third of Directors must retire. Any Director who has been in office for three or more years and for three or more annual general meetings must also retire. Directors who retire are generally eligible for re-election.

Process for evaluating performance of the Board, its Committees and its members

A performance evaluation of the Board and its Committees is undertaken annually at the completion of the financial year by interviewing Directors and can include written surveys sent to each Board and Committee member.

The performance review is facilitated internally and covers the role, composition, procedure and practices of the Board and its Committees. The individual responses provided are confidential to each Board/Committee member. The Chairman formally discusses the results with the Directors and the Committees.

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.

The Board and its Committees were evaluated following the end of the financial year and in accordance with the processes described above.

Collection House's Board is responsible for reviewing Collection House's procedure for the evaluation of the performance of the Board, its Committees and its Directors.

Procedures for taking independent advice

To enable Collection House's Board to fulfil its role, each Director may obtain independent advice on relevant matters at Collection House's expense.

In these circumstances, the Director must notify the Chairman of the nature of the advice prior to obtaining that advice. This enables the Chairman to take steps to ensure that the party from whom advice is sought has no material conflict of interest with Collection House. The Chairman is also responsible for approving payment of invoices relating to the external advice.

Further, 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 the Directors regularly consult with the CEO, the CFO, Company executives, the Company Secretary and General Counsel. In addition, Directors may consult with, and request additional information from any of the Company's employees.

Each Board Committee has the full authority of the Board to:

- communicate and consult with external and internal persons and organisations concerning matters delegated to the Committee; and
- appoint independent experts to provide advice on matters delegated to the Committee.

Collection House Board Committees

To assist in carrying out its responsibilities, the Collection House Board has established the following Committees:

Committees	Current Members	Meetings held during FY 2012
Audit and Risk Management	Kerry Daly (Chair)	
	Tony Coutts	
	David Gray (appointed 28 June 2012)	6
Remuneration Committee	Tony Coutts (Chair)	
	Dennis Punches (stepped down 28 June 2012)	
	David Gray (appointed 28 June 2012)	
	David Liddy (appointed 28 June 2012)	1
Board Sub – Committee 2012	John Pearce (Chair)	Dissolved on 28 June
	Tony Coutts	
	Kerry Daly	3

Each Committee, other than the Board Sub-committee, has adopted a formal Charter that outlines its duties and responsibilities.

Departure from Recommendation 2.4: The Principles and Recommendations recommend that the Board should establish a Nominations Committee.

During the reporting period, Collection House did not have a Nominations Committee. Taking into consideration the nature, size, composition of the Board and the allocation of scarce Director resources, the Board determined that it is ultimately responsible for the role, responsibilities and functions undertaken by the Nominations Committee. In addition, as the Company is not an entity that trades in the top 300 of the S&P All Ordinaries Index, the Board resolved that:

- the role, responsibilities and functions of the Nominations Committee be assumed by the Board as a whole;
- the Board considers that it is best placed to deal with the nomination, appointment and evaluation of Directors;
- the members of the Board have sufficient industry experience, knowledge and technical expertise to discharge the Nominations Committee's mandate effectively; and
- the efficiencies previously gained from having a Nominations Committee, no longer exist.

More information

A full copy of each of Collection House's Committee Charters is available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 3

Promote ethical and responsible decision-making

Codes of conduct

Collection House has established separate Codes of Conduct that outline the standard of ethical behaviour that is expected of its Directors and of its employees at all times. The Code of Conduct for Employees is a detailed statement of the:

- practices required by employees to maintain confidence in Collection House's integrity;
- legal obligations of employees and the reasonable expectations of their stakeholders; and
- responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Policy concerning diversity

Collection House has established a policy concerning diversity and disclosed its policy on its website. The policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually, both the objectives and progress in achieving them.

Collection House's Remuneration Committee has been delegated responsibility for developing and monitoring the application of Collection House's Diversity Policy.

In accordance with the Policy, Collection House has established measurable objectives for achieving gender diversity and has assessed those objectives against Collection House's progress during the reporting year in achieving those objectives.

The Board assessed that the measurable objectives were substantially achieved. The exception is those measurable objectives with a time frame that exceeds an individual reporting year. However, these measurable objectives are progressing and are achievable within the allocated time frames.

Measurable Objectives	Progress
Establishing a diversity committee	Achieved
Appointing a diversity manager	Achieved
Set up internal review and reporting procedures	Achieved
Ensuring that a merit-based system is uniformly adopted when employees, managers, senior managers, national managers, senior executives and directors are appointed	Achieved
Ensuring that applicants are selected from diverse candidate pools and are interviewed by a diverse selection interview panel	Achieved

Collection House will also report annually the proportion of female employees in the Collection House Limited group, women in senior executive positions and women on the Board. Set out below is the report for the year ending 30 June 2012:

Position	Total Number	Number of Women
Directors	6	Nil
Executives	4	1
Senior Managers	8	4
Managers	79	32
Employees	528	303
Total Employees	**625***	**340**

** FTE number*

Policy concerning trading in company securities

Collection House has adopted a formal Securities Trading Policy which details Collection House's policy concerning trading in Collection House shares by Directors, senior executives and employees.

The Securities Trading Policy:

- includes a requirement that employees do not buy and sell Collection House shares within a 12 month period (ie. that they do not short trade);
- establishes formal "trading windows" during which Collection House employees can and cannot trade in Collection House shares;
- includes restrictions and clearance procedures as to when trading can and cannot occur;
- sets out Collection House's policy on entering into transactions in associated products which limit economic risk; and

- summarises the application of the insider trading provisions of the Corporations Act and the consequences of contravention thereof.

A copy of the Securities Trading Policy has been given to Australian Securities Exchange and released to the market.

More information
Full copies of Collection House's Code of Conduct for Directors and senior executives, Diversity Policy and Securities Trading Policy are available at: www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 4

Safeguard integrity in financial reporting

Collection House Audit and Risk Management Committee and Charter
As indicated above, Collection House has established a formal Audit and Risk Management Committee to review the integrity of Collection House's financial reporting and to oversee the independence of Collection House's external auditors.

The current members of the Audit and Risk Management Committee are Kerry Daly (Chair), Tony Coutts and David Gray (appointed 28 June 2012). All members of the Committee are Independent, Non-executive Directors.

Information about each Committee member's qualifications and experience is set out in the Directors' Statutory Report.

The Audit and Risk Management Committee has adopted a formal Charter that outlines its duties and responsibilities.

The Charter includes information on the procedures for selection and appointment of the external auditor of Collection House and for the rotation of external audit engagement partners.

Departure from Recommendation 4.2: The Principles and Recommendations recommend that the Audit and Risk Management Committee has at least three members.

During the reporting period and until 28 June 2012, the Audit and Risk Management Committee comprised two members (David Gray was appointed on 28 June 2012 as the third member of the Committee).

The current members (until 28 June 2012 when David Gray was appointed to the Committee) were both Independent, Non-executive Directors with relevant industry experience and knowledge of domestic trends in the collection industry. On this basis the Board resolved that the current members were sufficient in number, independence, technical expertise and skills to properly discharge their roles and responsibilities effectively as Committee members of the Audit and Risk Management Committee. This decision took into consideration the nature, size, composition of the Board, the allocation of scarce Director resources and that the Board is ultimately responsible for the role, responsibilities and functions undertaken by the Audit and Risk Management Committee. It also acknowledged that the Company is not an entity that trades within the top 300 of the S&P All Ordinaries Index.

More information
A full copy of Collection House's Audit and Risk Management Committee Charter is available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 5

Make timely and balanced disclosure

Policy to ensure compliance with ASX Listing Rule disclosure requirements
Collection House has a formal Continuous Disclosure Policy in place which is designed to ensure compliance with ASX Listing Rule requirements. The Policy details processes for:

- ensuring material information is communicated to Collection House's Board, its Chief Executive Officer or its General Counsel and Company Secretary;
- the assessment of information and for the disclosure of material information to the market; and
- the broader publication of material information to Collection House's shareholders and the media.

More information
A full copy of Collection House's Continuous Disclosure Policy is available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 6

Respect the rights of shareholders

Promotion of effective communication with shareholders
Collection House has a Shareholder Communication Guideline which seeks to promote effective communication with its shareholders. The Guideline explains how information concerning Collection House will be communicated to shareholders. The communication channels include:

- Collection House's Annual Report;
- disclosures made to the ASX; and
- Notices of Meeting and other Explanatory Memoranda.

Collection House has a dedicated corporate website which includes links to all ASX communications and other company information.

More information
A full copy of Collection House's Communication Policy is available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 7

Recognise and manage risk

Policy for the oversight and management of material business risks
Collection House has established policies for the oversight and management of material business risks and has adopted a formal Risk Management Policy. Risk management is an integral part of the industry in which Collection House operates.

Design and implementation of risk management and internal control systems
As required by the Board, Collection House's management have devised and implemented risk management systems appropriate to Collection House.

Management is charged with monitoring the effectiveness of risk management systems and is required to report to the Board via the Audit and Risk Management Committee. The Board convened Audit and Risk Management Committee administers Collection House's Risk Management Policy.

The Policy sets out procedures which is designed to identify, assess, monitor and manage risk at each of Collection House's controlled businesses and requires that the results of those procedures are reported to the Collection House Board. A formal Risk Management Framework has been developed using the model outlined in AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines.

The Framework identifies specific major risks identified at an operational level and provides for the reporting and monitoring of material risks across the Collection House group.

The Board has received, and will continue to receive, periodic reports through the Audit and Risk Management Committee, summarising the results of risk management initiatives at Collection House.

Chief Executive Officer and Chief Financial Officer assurances
The Collection House Board receives regular reports about the Collection House group's financial and operational results.

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

More information
Full copies of Collection House's Audit and Risk Management Committee Charter and Collection House's Risk Management Policy are available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

PRINCIPLE 8

Remunerate fairly and responsibly

Remuneration of Board members and Senior Executives
Collection House has established a formal Remuneration Committee. The role of the Remuneration Committee includes the review and recommendation of appropriate Directors' fees to be paid to Non-executive Directors.

The Remuneration Committee also considers the remuneration policies applied to executives, including any equity-based remuneration plan that may be considered, subject to shareholder approval (where required).

Following the end of the financial year, the Committee has reviewed and approved:

- the remuneration for senior executives which will apply during the financial year ending 30 June 2013; and
- the short term bonus payments made to senior executives referable to the financial year ending 30 June 2013.

The Remuneration Committee has been delegated responsibility for developing and monitoring the application of Collection House's Diversity Policy.

The current members of the Remuneration Committee are Tony Coutts (Chair), David Gray (appointed 28 June 2012), David Liddy (appointed 28 June 2012) and Dennis Punches (stepped down 28 June 2012). Information about each Committee member's qualifications and experience is set out in the Directors' Statutory Report. The Remuneration Committee has adopted a formal Charter that outlines its duties and responsibilities.

The objective of Collection House's remuneration policy is to ensure that:

- senior executives are motivated to pursue the long-term growth and success of Collection House; and
- there is a clear relationship between senior executives' performance and remuneration.

Policy on entering into transactions in associated products which limit economic risk

Collection House employees who hold Collection House shares under the Executive Share Option Plan are not permitted to hedge or create derivative arrangements in respect to their Executive Share Option Plan shares or any of their interests in any of those shares. Directors do not participate in any share option plans.

The rules of the Executive Share Option Plan specifically provide that a participant must not grant or enter into any Security Interest in or over any Collection House shares that may be acquired under the Plan (Participant Shares) or otherwise deal with any Participant Shares or interest in them until the relevant Participant Shares are transferred to the participant in accordance with the Plan rules. Security Interests are defined to extend to any mortgage, charge, pledge or lien or other encumbrance of any nature, and includes any derivative relating to or involving a Participant Share. Any Security Interest, disposal or dealing made by a participant in contravention of the Plan rules will not be recognised by Collection House.

A summary of current remuneration arrangements, including share options, is set out in more detail in the Remuneration Report.

Departure from Recommendation 8.2: The Principles and Recommendations recommend that the Remuneration Committee consist of a majority of Independent Directors and have at least three members.

During the reporting period and until 28 June 2012, the Remuneration Committee did not consist of a majority of Independent Directors nor have at least three members. Mr Punches is not an Independent Director due to his substantial shareholding in the Company. Notwithstanding, the Board does not consider there were any matters that materially interfered with the exercise by Mr Punches (before 28 June 2012) of his unfettered and independent judgment as a Committee member.

During the reporting period and until 28 June 2012, the Remuneration Management Committee comprised two members (David Gray and David Liddy were appointed on 28 June 2012 and Dennis Punches stepped down from the Committee at the same time). The Board resolved that the current members, both with relevant industry experience and knowledge of domestic trends in the collection industry, were sufficient in number, independence, technical expertise and skills to properly discharge their roles and responsibilities effectively as Committee members of the Remuneration Committee.

This decision took into consideration the nature, size, composition of the Board, the allocation of scarce Director resources and that the Board is ultimately responsible for the role, responsibilities and functions undertaken by the Remuneration Committee. The Board also took into consideration that the Company is not an entity that trades in the top 300 of the S&P All Ordinaries Index.

More information

Full copies of Collection House's Remuneration Committee Charter and Collection House's Executive Share Option Plan are available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.

Other Governance Practices

HEALTH AND SAFETY

Collection House aims to provide and maintain a safe and healthy work environment within all businesses operations.

Collection House meets this commitment by implementing work practices and procedures throughout the Collection House group 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 for themselves and others, in keeping with their defined duties and responsibilities and the relevant legislative requirements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Australian Accounting Standards Board (AASB) 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.

Collection House adopted the Australian equivalents of IFRS in its consolidated entity's financial statements since 31 December 2006.

CARBON EMISSIONS TRADING

Collection House is committed to reducing its energy consumption and carbon emissions. 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.

Collection House is aware that, on and from 1 July 2012, it will be indirectly affected by those supplying entities affected by the thresholds. Collection House notes that some of its expenses, notably gas and electricity will increase on and from 1 July 2012 as a direct consequence of the introduction of the Carbon Emissions Trading Scheme.

Collection House has taken and will continue to take initiatives to reduce its carbon footprint.

Directors' Report

For the year ended 30 June 2012

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, 2012.

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:

David Liddy (appointed as Director and Chairman on 27 March 2012)

John Pearce (stepped down as Chairman on 27 March 2012)

Dennis Punches

Tony Coutts

Bill Kagel (retired on 28 October 2011)

Kerry Daly

David Gray

See pages 31 to 33 for profile 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. There were no significant changes in the nature of the activities of the Group during the year.

Dividends paid to members during the financial year

	30 June 2012 $'000	**30 June 2011 $'000**
Final ordinary dividend for the year ended 30 June, 2011 of 3.1 cents fully franked (2010 – 3 cents fully franked) per fully paid share paid on 25 November 2011.	3,060	2,920
Interim ordinary dividend for the year ended 30 June, 2012 of 3.2 cents fully franked (2011 – 3.1 cents fully franked) per fully paid share paid on 23 March, 2012.	3,425	3,017

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 $3,461 million (3.2 cents per fully paid share) to be paid on 19 October 2012 out of retained profits and a positive net asset balance as at 30 June 2012.

FY2012 Highlights

- Profit before tax for the year was **$17.7 million** (2011: $14.6 million)
- Earnings per share (EPS) were **12.3 cents** (2011: 10.4 cents)
- Shareholder equity was **$109 million** (2011: $96 million)
- Total dividends for the year of **6.4 cents** (interim 3.2 cents paid March 2012, final 3.2 cents to be paid 19 October 2012), fully franked, up 3% from FY11.

Review of Operations

The strong earnings result was due to a range of factors including:

- A continued disciplined approach to debt purchases while growing the Purchased Debt Ledger (PDL) book
- Increased contingent collection revenue in FY 2012 by 18%
- Increased PDL collections in FY 2012 by 14%
- EBIT increased 18%
- EBITDA increased 14%
- PDL acquisitions of $A61 million in FY 2012
- Repayment Arrangements and Litigated Account Portfolio increased 24%

Key Financial Results – by Segment – Audited ($'000)

	Commission collections		Account asset management		Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**	**30 June 2012 $'000**	**30 June 2011 $'000**	**30 June 2012 $'000**	**30 June 2011 $'000**
Revenue						
Sales	38,033	32,173			38,033	32,173
Collections from Purchased Debt Ledgers			88,726	78,042	88,726	78,042
Fair Value Movement in Purchased Debt Ledgers			(37,344)	(33,073)	(37,344)	(33,073)
Total segment revenue	38,033	32,173	51,382	44,969	89,415	77,142
Intersegment elimination					(276)	(364)
Consolidated revenue	38,033	32,173	51,382	44,969	89,139	76,778
Results						
Segment result	6,132	5,393	21,676	18,885	27,808	24,278
Interest expense & borrowing costs					(6,179)	(5,645)
Unallocated revenue less unallocated expenses					(3,880)	(4,050)
Profit before Tax					17,749	14,583
Taxation					(5,067)	(4,466)
Net Profit After Tax					**12,682**	**10,117**

Lion Finance (Account asset management segment)

Total PDL purchases increased 24% year on year resulting in a 14% increase in collections.

Repayment Arrangements and Litigated Accounts Portfolio increased 24% year on year to $274 million and now provides up to 66% of total collections monthly.

Commission Collections (including non-Lion Finance subsidiaries and other business revenue)

The commission collection market continues to be very competitive with commission rates at fine margins. Revenue increased by 18% year on year. Revenue growth can be attributed to zero loss of key clients during the year and a very stable and long serving workforce. To accelerate this growth, the company has launched an off-shore operation in Manila which will assist in maintaining future margins and ensuring a competitive advantage in delivering premium services to our clients. In addition, building customer relationships and increasing referrals within the group will be considered key initiatives in the coming year. As noted last year the company moved to improve marketing capabilities during the year and developed new service offerings which will both capitalise on and reinforce our organisational strengths of people and culture, ethics and compliance, diversity and technology. This partly accounts for the improved result in FY12.

Assets and liabilities

Consolidated net assets have increased from $95.9 million to $109.2 million, reflecting the continued profitability of the Group and the minor capital raising in November 2011.

During the reporting period new debt portfolios were purchased for A$61 million, in the Australian and New Zealand markets respectively, which were funded from operating cash flow and an increase in long-term bank debt.

Cash flow

The consolidated cash flow from operating activities increased by 7% to $57.3 million (2011: $53.6 million) primarily due to increased collections flowing from the higher levels of debt purchased and worked by the Group during the 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 dividend as stated on page 26.

Outlook

Near term

The Company expects to benefit from ongoing higher collectability of debt as a result of a higher savings rate and a propensity to pay down debt.

Nevertheless, a degree of caution remains appropriate because of increases in household expenses such as home rentals, petrol prices and utilities, all of which puts pressure on more vulnerable customers and may extend the period of recovery of debt.

Based on past experience, the company will continue its focus on implementing its proven strategy leaving the Company well placed to deliver further positive outcomes in FY 2013.

Lion Finance

PDL purchases at disciplined prices are expected to continue in 2013. The investment in purchased debt ledgers will drive revenue growth and continue the upward trend in repayment arrangements and litigated accounts.

The increased PDL acquisitions in FY 2012 were funded primarily through operating cash flow and the use of our debt facility. FY 2013 debt purchases are expected to be at or up to FY12 levels subject to debt pricing and availability in the market.

Commission Collections

The Commission Collections business remains challenging, but 2012 investments made in sales and marketing are starting to provide returns which supported by building tactical relationships, maintaining our long serving workforce and identifying opportunities, should continue into FY2013.

Cash flow Management

Cash flow Management has emerged from FY 2012 as the beacon of future growth with more clients turning to us to lead the way to manage early stage delinquency levels and improve their overall loss provisions and cash flow position. The company will focus on marketing the success of clients to those in similar industries.

Long term

Collection House has established a sustained track record of increasing profitability and dividends for shareholders over recent years.

Strategic Initiatives

During the period, the Company has:

- Focused on increasing the number of repayment arrangements and litigated accounts with customers. Debts under repayment arrangements and litigated accounts are more profitable than those which are not
- Focused on maximising productivity of staff across the Company by implementing new initiatives and re-engineering frontline management
- Increased revenue from the PDL portfolio. Set against a relatively stable cost base, this has the effect of increasing profitability
- The launch of our offshore operation on 23 April in Manila will introduce the Company to enhanced product offerings, efficiencies, competitive pricing opportunities and international market exposure
- Continued the renewal of its proprietary IT based collections platform. The next generation "C5" will take advantage of new technology and provide better information and support to both operational and support staff, and better meet the needs of our clients
- Continued to invest in staff development and incentives
- Invested in new tools which allow better portfolio analytics and segmentation to improve collection strategies and profitability

Looking forward, the Company will continue to focus on these strategic themes, in the short-term.

- To develop people, by engaging and investing in our workforce and developing its talent as a primary driver of business growth
- To grow, by expanding on our "one stop shop" advantage, engaging in broader markets, and introducing evolved products to new and existing clients
- To differentiate, through enhancing our leadership in ethical and compliant collections, and by emphasising customer collaboration in collection practice as "our way" of doing smart business
- To innovate, so as to build productivity and maintain costs through efficiencies and effective processes
- CLH over the previous 5 years has delivered on average 15% growth in NPBT. Our growth strategy aims to ensure comparable double digit growth will continue

In the longer term, there are other opportunities to explore including:

- Secure predictable future revenue streams and enhance ledger values by continuing to grow the repayment arrangement book
- Alternative capital management strategies as a means of funding future growth and maximising shareholder returns
- New and innovative use of analytics and technology to drive competitiveness
- Identify and develop new products and services to meet the needs of future markets
- Building on the FY 2012 growth of the Commission Collections segment
- Expand and strengthen strategic relationships
- Growing our international presence by enhancing our offshore operations in Manila

Collection House Limited – Overview

Who we are

Collection House Limited is a public Company which listed on the Australian Securities Exchange on 4 October 2000. The Collection House Group of Companies employs over 610 trained personnel in 10 Australasian locations.

The Group focuses on providing receivables management, debt purchasing and debt collection services in all Australian states and territories and throughout New Zealand. The Company aims to position itself as a significant player in large corporate debt collection and purchasing markets in Australia and New Zealand, with a reputation for reliability, integrity, high quality services, and as an ethical and compassionate collector of debts, a good employer and corporate citizen.

The Company has two operating divisions, Commission collections conducted in the name of Collection House and our subsidiary Midstate Credit Management Services Pty Ltd, and Account asset management conducted by our specialist subsidiary Lion Finance Pty Ltd. The Company operates in New Zealand through our wholly-owned subsidiary Collection House (NZ) Limited, collecting debt both on commission and referred purchased debt.

Included in the Commission collections division is the wholly-owned incorporated legal practice Jones King Lawyers, which provides in-house legal services to both the Commission collections and Account asset management businesses and acts for third party clients.

Our markets

The Collection House Group operates in the Australian and New Zealand debt collection markets.

The Commission collections business collects debts on a commission basis for large corporate customers. Our market segments for this business are large financial institutions, both bank and non-bank, and a range of corporate customers, including telecommunications, and insurance. This business also provides a full receivables management service to customers on a fee for service basis if required. The Commission collections business does not operate in the small end of this market place, as this segment can be better served by others.

The Account asset management Group specialises in purchasing distressed and overdue debts from a range of debt issuers who are no longer willing or able to collect them. Our markets segments for this business are large banks and finance companies, and telecommunications companies.

The Company is the second largest operator in its chosen markets in both Australia and New Zealand.

Our strengths

The Company has a number of strengths which support its operations:

- Many years of experience in our chosen markets. The Company has been operating in its chosen markets as an ASX-listed entity since 2000, and as a private organisation for a number of years before that. Over that time, the Company has gained significant experience and knowledge of the businesses which it currently operates.
- Experience across the full debt collection spectrum in both Australia and New Zealand. An experienced, professional and stable board of directors and executive team. The board of directors and senior management of the Company are all experienced professionals with a strong knowledge of debt collection. Both the board and senior management have remained stable over many years, providing strength and continuity to the Company.
- An experienced, professional and stable employee team. The Company focuses on and commits significant resources to training and looking after its employee team because we believe that the employees are the most important asset that it has. Stability within the employee team is as important, as it is within the executive team, in order to maintain and take advantage of employee experience and knowledge in the Company.

- A strong corporate and compliance culture which promotes professionalism, ethical collections and employee ownership in everything we do.
- A sophisticated and proprietary technology platform which is evolving in line with our chosen markets and customer needs.
- A database of over 7 million accounts with which the Company has dealt.

Our drivers of financial success:

There are a number of critical factors which drive the success of the Company.

Critical factors which are common across the Company:

– Good information sources

The key to successful debt collection is accurate and reliable information. Accurate information facilitates everything which the Company does. The Company has invested significant resources into developing a strong and usable proprietary IT based collections platform which underpins all activity across the Company.

The collections platform is under continuous development which allows the Company to take advantage of technology advances as they occur, and to meet the needs of external clients on a timely basis.

– Productive employees

Productive employees are a critical factor in the Company's success. With constant pressure on costs, and employee costs being a significant item for the Company, ensuring that all employees, both operational and support, are productive is critical to our success.

– A strong understanding of all aspects of the debt collection process

The Company considers that it is critical that all aspects of the debt collection process are understood in detail.

For operational staff, this means understanding how to collect debts in a professional, ethical, compliant but cost effective manner.

For support staff, this means understanding the dynamics of the debt collection process as it relates to their work, and providing effective and meaningful support to operational staff.

– Reliable, timely and accurate internal and external reporting systems

All activities of the Company need to be monitored and controlled on a timely basis. At Collection House this is facilitated by the provision of reporting on a continuous basis to all levels of management.

Our collections platform is the centrepiece of the Company's reporting systems, feeding statistical data to operational managers, financial data to the finance team for financial reporting, and other relevant data to the other support teams.

Critical factors related to Commission collections

– The ability to service the needs of clients in a manner that generate profits for the Company.

Meeting the needs of clients is critical to this business. Margins are under constant pressure from clients, and there are many organisations prepared to undercut Collection House to get business. The Company's response to this is to provide pro-active and superior service to clients to meet their needs. Our clients require ongoing reporting of performance and regular and timely remittance of funds collected on their behalf.

Critical factors related to Account asset management

– The ability to accurately determine the price which the Company will pay for debts.

The price paid for a debt is a critical input to being able to make a profit on any debt purchase. The Company has invested significant resources in being able to accurately price debts prior to putting in a bid to purchase.

The ability to correctly price debts is reliant upon having access to good sources of information, and skilled employees making the pricing determination. The Company has access to the complete history of its own debt collection activities, and uses this information extensively together with other publicly available information to understand a particular debt portfolio prior to purchase.

Our employees are highly skilled and trained and are able to make accurate assessments of the correct price which should be paid for debts.

– The ability to accurately determine the value of the purchased debt portfolio as any point in time.

As important as purchasing debts at the correct price is knowing the true value of the portfolio on an ongoing basis. With this knowledge, the Company is able to manage the portfolio on an ongoing basis and take corrective action if required.

The same information systems and employee skills which enable to the Company to accurately price debts enable the Company to effectively manage the debt portfolio on a day-to-day basis.

– The ability to put debtors onto a payment plan. Converting as many of the debts in the portfolio as possible into regular paying arrangements is critical to the business success of the Company.

Having a plan in place increases the recoverability of a debt, which increases the profitability of the portfolio and the Company. The Company puts significant resources into putting as many purchased debts as possible onto arrangement as soon as possible.

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) Mr David Liddy was appointed as Chairman to succeed Mr John Pearce.

(b) The Group raised capital of $1.7 million from a Dividend Reinvestment Plan and $5 million from a Private Placement and lowered the Dividend Payout Ratio to around 50% of its Net Profit After Tax.

(c) The Group purchased new debt portfolios for A$61 million.

(d) The Group established a wholly foreign owned subsidiary, Collection House International BPO, Inc. in Manila, Philippines.

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 **$3,461** million (**3.2 cents** per fully paid share) to be paid on 19 October 2012 out of retained profits and a positive net asset balance as at 30 June 2012.

Other than the matters discussed above, no matter or circumstance has arisen since 30 June 2012 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

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 consider that it could cause 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 2012

David Liddy	**Independent, Non-Executive Chairman. Age 61**
Experience	Appointed to the Board and as Chairman of Collection House Limited in March 2012, David Liddy is a well known business leader, with an executive career covering 40 years in banking, most recently as MD and CEO of the S&P/ASX 100 company Bank of Queensland Limited (BOQ) prior to his retirement in August 2011. Prior to joining BOQ, David spent 33 years at Westpac Banking Corporation. David brings to Collection House not only a wealth of knowledge and experience but, new ideas and contacts, which will help drive Collection House to the next level of market maturity. David is also Chairman of Financial Basics Foundation and Financial Basics Community Foundation, a Director of AEIOU, a non Executive director of Adept Solutions Limited, a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors. He was also recently Deputy Chairman, Australian Bankers' Association and on the Boards of such charities as Royal Children's Hospital Foundation (Qld) and Wesley Research Institute.
Special Responsibilities	Mr Liddy is a member of the Remuneration Committee.
Interest in shares and options (direct & indirect)	58,000 ordinary shares in Collection House Limited.

Dennis Punches	**Non-executive Deputy Chairman. Age 76**
Qualifications	BSC
Experience	Appointed to the Board in July 1998, and in 2000 was appointed as Chairman of Collection House Limited. Re-elected Director 29 October 2010. 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 retired from the Remuneration Committee on 28 June 2012.
Interest in shares and options (direct & indirect)	19,452,535 ordinary shares in Collection House Limited.
John Pearce	**Non-executive Director. Age 67**
Experience	Co-founder of Collection House Limited. Appointed to the Board in April 1993. In April 2003, returned to the former position of Managing Director and 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 on 26 October 2007 and for a further three year term on 29 October 2010 by shareholders. 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. Mr Pearce stepped down as Chairman of Collection House Limited on 27 March 2012.
Interest in shares and options (direct & indirect)	11,895,190 ordinary shares in Collection House Limited.
Tony Coutts	**Independent, Non-executive Director. Age 53**
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 29 October 2010. 19 years in the finance and insurance industry (Australian Guarantee Corporation Ltd). 15 years in the debt collection industry, the last 13 of which were spent at Collection House.
Special responsibilities	Mr Coutts is a Member of the Audit and Risk Management Committee and Chair of the Remuneration Committee.
Interest in shares and options (direct & indirect)	4,821,665 ordinary shares in Collection House Limited.
Bill Kagel	**Independent, Non-executive Director. Age 75 (retired on 28 October 2011)**
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. Re-elected Director 31 October 2008 and retired on 28 October 2011.
Interest in shares and options (direct & indirect)	1,000,000 ordinary shares in Collection House Limited.
Kerry Daly	**Independent, Non-executive Director. Age 54**
Qualifications	BBus (Acc), QUT
Experience	Mr Daly has over 30 years experience in the financial services sector. Mr Daly was elected 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 the fixed interest brokerage and investment banking business Grange Securities Limited. Mr Daly is currently a non-executive Director of Trustees Australia Limited.
Special responsibilities	Mr Daly is Chair of the Audit and Risk Management Committee.
Interest in shares and options (direct & indirect)	308,844 ordinary shares in Collection House Limited.

David Gray	Independent, Non-executive Director. Age 65
Qualifications	BSc (UK), Honorary Doctorate, QUT
Experience	Mr Gray has more than 20 years experience in senior executive positions with large national and international companies. Mr Gray is currently the Chairman of Queensland Cyber Infrastructure (March 2008), Chairman of Australia Research Council for Aviation Automation (August 2007), Deputy Chairman of Civil Aviation Safety Authority (CASA) (July 2009) and a Director of the Brisbane Airport Corporation (April 2010). Previously, Mr Gray was Chairman of Queensland Motorways (2006–2010), Chairman of WaterSecure (2008–2011), Managing Director of Boeing Australia (1995–2006), Managing Director of GEC Marconi (Australia)(1990–1995), Divisional Chief Executive of GEC (Australia) Heavy Engineering (1984–1990) and Operations Manager of Teltech in South Africa (1981–1984). Mr Gray was appointed to the Board on 28 June 2011 and elected a Director of Collection House Limited on 28 October 2011.
Special responsibilities	Mr Gray is a Member of the Audit and Risk Management Committee and the Remuneration Committee.
Interest in shares and options (direct & indirect)	100,000 ordinary shares in Collection House Limited.

Company Secretary

The Company Secretary to 30 June, 2012 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 2012, and the numbers of meetings attended by each director were:

			Meetings of committees					
	Directors		Audit and Risk Management		Remuneration		Sub-Committee*	
2012	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
David Liddy (appointed 27 March 2012)	3	3	**	**	0	0	**	**
Dennis Punches	7	7	**	**	0	1	**	**
John Pearce	7	7	**	**	**	**	3	3
Tony Coutts	7	7	6	6	1	1	3	3
Bill Kagel	2	2 retired 28/10/2011)	**	**	**	**	**	**
Kerry Daly	7	7	6	6	**	**	3	3
David Gray	6	7	3	4	1	1	**	**

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
* The CLH Board Sub-Committee was established on 24 February 2011 to undertake a strategic review process to assess and develop initiatives to increase shareholder value and returns in the short to medium term including Board succession planning and future composition, Shareholder communication, capital optimisation and segmental performance review. The Board Sub-Committee comprised John Pearce as Chairman, Tony Coutts and Kerry Daly both being independent Non-Executive Directors. The Board Sub-Committee met on a regular basis until it was disbanded on 28 June 2012
** Not a member of the relevant committee

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.

The Remuneration Committee 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 non financial 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.

Securities Trading Policy

The trading of shares issued to participants under any of the Company's employee equity plans is subject to, and conditional upon compliance with the Company's Securities Trading Policy. Executives are prohibited from entering into any hedging arrangements over unvested options under the Company's Executive Share Option Plan. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Directors Fees

The current base fees were last reviewed with effect 25 August 2009. For the period 1 July 2011 to 30 June 2012, John Pearce who was Chairman until 27 March 2012, received a non-executive director's fee of $50,000 per annum plus superannuation but, did not draw any additional fees while acting as Chairman of the Group.

David Liddy, as Chairman appointed 27 March 2012, received a combined non-executive director's fee/ Chairman's fee of $150,000 per annum plus superannuation, pro-rata for the period 27 March 2012 to 30 June 2012.

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 2011 to 30 June 2012	From 1 July 2010 to 30 June 2011
Base fees		
Chairman (David Liddy from 27 March 2012 to 30 June 2012)	$150,000*	–
Chairman (John Pearce from 1 July 2011 to 27 March 2012)	$50,000	$50,000
Other non-executive directors	$50,000	$50,000
Additional fees		
Audit and Risk Management Committee Chair	$30,000	$30,000
Audit and Risk Management Committee Member	$15,000	$15,000
Lead Independent Director	$ 5,000	$ 5,000

* David Liddy received a combined non-executive director's fee/Chairman's fee of $150,000 per annum plus superannuation, pro-rata for the period 27 March 2012 to 30 June 2012. For further information in relation to Directors remuneration, refer to page 34.

Use of remuneration consultants

In April 2012, Collection House Limited's Remuneration Committee employed the services of Egan Associates Pty Limited (Egan) to review its existing remuneration policies and to provide recommendations in respect of both executive short-term and long-term incentive plan design. These recommendations also covered the Group's key management personnel. Under the terms of the engagement, Egan provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 and was paid $21,000 (ex GST) for these services.

Egan has confirmed that the above recommendations have been made free from undue influence by members of the Group's key management personnel.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Egan was engaged by, and reported directly to, the Chair of the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by the Chair of the Remuneration Committee under delegated authority on behalf of the Board.
- The report containing the remuneration recommendations was provided by Egan directly to the Chair of the Remuneration Committee.
- Egan was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Egan was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations until after the Board made its determinations in relation to those remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

Voting and comments made at the Company's Annual General Meeting

Collection House Limited received more than 80% of "yes" votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Executive Director

During the period 1 July 2011 to 30 June 2012, there was no executive director of the Company.

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 or total employment cost.

Base pay

Structured as a total employment cost package, the base pay may be delivered as a combination of cash and prescribed non financial benefits at the executives' discretion. Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants, as required, 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 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 non-executive 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 the Collection House Group are set out in the following tables.

The key management personnel of the Group, who have authority and responsibility for planning, directing and controlling the activities of the entity, are as follows:

- M. Thomas – Chief Executive Officer
- A. Ralston – Chief Financial Officer
- M. Watkins – General Counsel and Company Secretary
- K. Lynam – General Manager – Human Resources and Corporate Services

Remuneration for the key management personnel for the Group for the relevant period is as follows:

		Short Term Benefits				Post Employment Benefits	Share Based Payments	
DIRECTORS		**Salary & Fees $**	**Cash Bonus $**	**Non-Monetary Benefits $**	**Other $**	**Super (1) $**	**Options $**	**Total $**
D. Liddy Chairman (27 March to 30 June 2012)	**2012**	**36,923**	**–**	**–**	**–**	**3,323**	**–**	**40,246**
	2011	–	–	–	–	–	–	–
J. Pearce Chairman (1 July 2011 to 27 March 2012)	**2012**	**50,000**	**–**	**–**	**–**	**4,500**	**–**	**54,500**
	2011	50,000	–	–	–	4,500	–	54,500
D. Punches Deputy Chairman	**2012**	**50,000**	**–**	**–**	**–**	**–**	**–**	**50,000**
	2011	50,000	–	–	–	–	–	50,000
T. Coutts Director	**2012**	**65,000**	**–**	**–**	**–**	**5,850**	**–**	**70,850**
	2011	65,000	–	–	–	5,850	–	70,850
B. Kagel Director (retired 28 October 2011)	**2012**	**16,346**	**–**	**–**	**–**	**–**	**–**	**16,346**
	2011	50,000	–	–	–	–	–	50,000
K. Daly Director	**2012**	**80,000**	**–**	**–**	**–**	**7,200**	**–**	**87,200**
	2011	80,000	–	–	–	7,200	–	87,200
D. Gray Director	**2012**	**50,000**	**–**	**–**	**–**	**4,500**	**–**	**54,500**
	2011	–	–	–	–	–	–	–

EXECUTIVES		Short Term Benefits Salary & Fees $	Cash Bonus $	Non-Monetary Benefits $	Other $	Post Employment Benefits Super (1) $	Share Based Payments Options $	Total $
M. Thomas Chief Executive Officer	**2012**	**400,845**	**300,000**	**3,375**	**–**	**63,000**	**75,309**	**842,529**
	2011	400,369	300,000	3,245	–	47,478	37,511	788,603
A. Ralston Chief Financial Officer	**2012**	**250,953**	**61,482**	**3,375**	**–**	**28,120**	**30,093**	**374,023**
	2011	240,873	50,503	3,245	–	22,812	19,958	337,391
M. Watkins General Counsel and Company Secretary	**2012**	**251,052**	**60,849**	**3,375**	**–**	**28,071**	**22,557**	**365,904**
	2011	250,280	51,833	3,245	–	27,190	17,446	349,994
K. Lynam General Manager – Human Resources and Corporate Services	**2012**	**153,548**	**37,498**	**3,375**	**–**	**17,194**	**22,557**	**234,172**
	2011	105,788	31,683	3,245	–	12,372	13,723	166,811

(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.

The relative proportions of remuneration referred to in the preceding table that are fixed and linked to performance and share-based options are as follows:

Name		2012 Performance Based (%) – STI	2012 Performance Based (%) – LTI*	2012 (%) Fixed
1.	M. Thomas	39	9	52
2.	A. Ralston	18	8	74
3.	M. Watkins	18	6	76
4.	K. Lynam	17	10	73

* The long-term incentives are being provided exclusively by way of options based on the value of options expensed during the year.

C. Service agreements (audited)

Remuneration and other terms of employment for the 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.

M. Thomas Chief Executive Officer	Annual Base Salary	$436,921 inclusive of superannuation for the year ended 30 June 2012
	Performance cash bonus	$327,000 inclusive of superannuation was paid for the year ended 30 June 2012
	Options	250,000 options were granted in 2008 (150,000 options were exercised on 1 November 2011). 1,479,000 options were granted in 2011. See note 31 or further details.
A. Ralston Chief Financial Officer	Annual Base Salary	$273,539 inclusive of superannuation for the year ended 30 June 2012
	Performance cash bonus	$67,015 inclusive of superannuation was paid for the year ended 30 June 2012
	Options	200,000 options were granted in 2008. 591,000 options were granted in 2011. See note 31 or further details.
M. Watkins General Counsel and Company Secretary	Annual Base Salary	$273,647 inclusive of superannuation for the year ended 30 June 2012
	Performance cash bonus	$66,324 inclusive of superannuation was paid for the year ended 30 June 2012
	Options	225,000 options were granted in 2008. 443,000 options were granted in 2011. See note 31 for further details.

K. Lynam General Manager – Human Resources and Corporate Services	Annual Base Salary	$167,367 inclusive of superannuation for the year ended 30 June 2012
	Performance cash bonus	$40,873 inclusive of superannuation was paid for the year ended 30 June 2012
	Options	150,000 options were granted in 2008. 443,000 options were granted in 2011. See note 31 for further details.

D. Share-based compensation (audited)

Options

Options have 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 31 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 Limited.

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 31 of the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2012	**2011**	**2012**	**2011**
1. M. Thomas	–	1,479,000	–	150,000
2. A. Ralston	–	591,000	–	120,000
3. M. Watkins	–	443,000	–	135,000
4. K. Lynam	–	443,000	–	90,000

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.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year		Amounts paid per ordinary share	
		2012	**2011**	**2012**	**2011**
Directors of Collection House Limited	–	–	–	–	–
Group Executives	1/11/2011	150,000	–	0.4927 cents	–
Former MD/CEO, T. Aveling (in accordance with his Employment Agreement, as varied)	19/10/11	1,200,000	–	0.4927 cents	–

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.

	2008	2009	2010	2011	2012
Net profit after tax ($m's)	$12.39	$7.85	$8.92	$10.11	**$12.68**
Dividends Declared	4.7 cents franked	4.9 cents franked	5.8 cents franked	6.2 cents franked	**6.4 cents franked**
Share price commenced	$0.78	$0.465	$0.47	$0.76	**$0.69**
Share price ended	$0.46	$0.49	$0.75	$0.65	**$0.79**
Basic Earnings per share (including discontinued operations)	12.7 cents	8.1 cents	9.2 cents	10.4 cents	**12.3 cents**

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the table on page 37 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 31 for details), hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to be expensed has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Cash bonus 2012		Options						
	Paid %	**Forfeited %**	**Year granted**	**Vested %**	**Forfeited %**	**Lapsed $**	**Financial years in which options may vest (subject to certain qualifying hurdles). Refer to note 31**	**Minimum total value of options yet to be expensed**	**Maximum total value of options yet to be expensed**
			2008	60%	–	–	2011 – 2013	–	–
M. Thomas	100	–	2011	–	–	–	2012 – 2013	–	124,692
			2008	60%	–	–	2011 – 2013	–	–
A. Ralston	97	3	2011	–	–	–	2012 – 2013	–	49,826
			2008	60%	–	–	2011 – 2013	–	–
M. Watkins	96	4	2011	–	–	–	2012 – 2013	–	37,348
			2008	60%	–	–	2011 – 2013	–	–
K. Lynam	96	4	2011	–	–	–	2012 – 2013	–	37,348

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 24 to the financial statements.

Shares under option

Long term incentives are provided to certain eligible employees via the Executive Share Option Plan, see note 31 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 of options granted	Issue price of shares	No of shares issued 2012	No of shares under option	Expiry date
MD/CEO Options	31/10/08	2,000,000	$0.4927	1,200,000	800,000	25 June 2013
Executive Share Option Plan	18/7/08	1,437,500	$0.4927	172,500	917,500	25 June 2013
	1/3/11	2,956,000	$0.6938	nil	nil	20 December 2013

F. Additional Information (Unaudited)

Insurance of officers

During the financial year, the Group paid a premium of $30,905 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 2012**	**30 June 2011**
1. Audit services, Lawler Hacketts Audit		
Audit and review of the financial reports and other audit work under the *Corporations Act 2001*.	137,200	148,000
Total remuneration for audit services	137,200	148,000
2. Other assurance services, Lawler Hacketts Audit	85,500	82,500
Total remuneration for audit-related services	85,500	82,500
TOTAL REMUNERATION	222,700	230,500

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 42.

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

David Liddy
Chairman

23 August 2012

Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO 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 2012 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 AUDIT

Liam Murphy
Partner

Brisbane, 23 August 2012

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Financial Statements

Income Statement

For the year ended 30 June 2012

	Notes	Consolidated 30 June 2012 $'000	30 June 2011 $'000
Commission		37,426	31,431
Other revenue		331	378
Collections of purchased debt ledgers		88,726	78,042
Change in Fair Value of purchased debt ledgers		(37,344)	(33,073)
Net gain on other financial assets – purchased debt ledgers		51,382	44,969
Revenue from continuing operations		**89,139**	**76,778**
Depreciation and amortisation expense	5	(2,142)	(2,057)
Other expenses		(6,034)	(4,632)
Employee expenses		(39,254)	(34,547)
Direct collection costs		(14,006)	(11,861)
Operating lease rental expense		(3,775)	(3,453)
Finance costs	5	(6,179)	(5,645)
Profit before income tax		**17,749**	**14,583**
Income tax expense	6	(5,067)	(4,466)
Profit from continuing operations		12,682	10,117
Profit for the year		**12,682**	**10,117**
Profit is attributable to:			
Equity holders of Collection House Limited		12,682	10,117
		12,682	10,117

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share	30	12.3	10.4
Diluted earnings per share	30	12.2	10.3

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	30	12.3	10.4
Diluted earnings per share	30	12.2	10.3

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

Statement of Comprehensive Income

For the year ended 30 June 2012

		Consolidated	
	Notes	30 June 2012 $'000	30 June 2011 $'000
Profit for the year		12,682	10,117
Other comprehensive income			
Exchange differences on translation of foreign operations	22(a)	(109)	(409)
Total comprehensive income for the year		**12,573**	**9,708**
Total comprehensive income for the year is attributable to:			
Equity holders of Collection House Limited		12,573	9,708
		12,573	9,708

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

Balance Sheet

As at 30 June 2012

	Notes	Consolidated 30 June 2012 $'000	Consolidated 30 June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	296	283
Receivables	8	7,719	6,692
Other financial assets at fair value through profit or loss	9	42,866	44,598
Other current assets	10	333	431
Total current assets		51,214	52,004
Non-current assets			
Other financial assets at fair value through profit or loss	9	142,301	117,439
Property, plant and equipment	11	5,198	6,221
Intangible assets	13	23,898	22,813
Total non-current assets		171,397	146,473
Total assets		**222,611**	**198,477**
LIABILITIES			
Current liabilities			
Payables	14	8,934	6,948
Borrowings	15	2,810	2,744
Current tax liabilities		6,035	5,772
Provisions	16	2,379	2,072
Total current liabilities		20,158	17,536
Non-current liabilities			
Borrowings	17	85,100	73,900
Provisions	19	307	360
Deferred tax liabilities	18	7,876	10,817
Total non-current liabilities		93,283	85,077
Total liabilities		**113,441**	**102,613**
Net assets		**109,170**	**95,864**
EQUITY			
Contributed equity	21	74,324	67,256
Reserves	22(a)	147	106
Retained profits	22(b)	34,699	28,502
Total equity		**109,170**	**95,864**

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

Statement of Changes in Equity

For the year ended 30 June 2012

		Attributable to members of Collection House Limited			
Consolidated	**Notes**	**Contributed equity $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2010		**67,256**	**294**	**24,322**	**91,872**
Profit for the year		–	–	10,117	10,117
Other comprehensive income		–	(409)	–	(409)
Total comprehensive income for the year		**–**	**(409)**	**10,117**	**9,708**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	22	–	–	(5,937)	(5,937)
Employee share options – value of employee services	22	–	221	–	221
Total transactions with owners		–	221	(5,937)	(5,716)
Balance at 30 June 2011		**67,256**	**106**	**28,502**	**95,864**
Profit for the year		–	–	12,682	12,682
Other comprehensive income		–	(109)	–	(109)
Contributions of equity, net of transaction costs	21	7,068	–	–	7,068
Dividends provided for or paid	22	–	–	(6,485)	(6,485)
Employee share options – value of employee services	22	–	150	–	150
Balance at 30 June 2012		**74,324**	**147**	**34,699**	**109,170**

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

Statement of Cash flows

For the year ended 30 June 2012

		Consolidated	
	Notes	30 June 2012 $'000	30 June 2011 $'000
Cash flows from operating activities			
Receipts from customers and debtors (inclusive of goods and services tax)		128,680	114,486
Payments to suppliers and employees (inclusive of goods and services tax)		(63,684)	(58,009)
		64,996	56,477
Interest received		74	37
Income taxes refunded/(paid)		(7,744)	(2,938)
Net cash (outflow) inflow from operating activities	**33**	**57,326**	**53,576**
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment	11	–	1
Payments for property, plant and equipment		(446)	(976)
Payments for leasehold improvements		(15)	(5)
Payments for other financial assets at fair value through profit or loss		(61,007)	(49,105)
Proceeds from sale of other financial assets at fair value through profit or loss		533	479
Payments for intangible assets		(1,693)	(1,695)
Net cash (outflow) inflow from investing activities		**(62,628)**	**(51,301)**
Cash flows from financing activities			
Proceeds from borrowings	17	11,195	7,008
Borrowing costs		(1,623)	(1,410)
Interest paid		(4,890)	(4,234)
Dividends paid to company's shareholders	23	(6,485)	(5,937)
Proceeds from issues of shares and other equity securities		7,068	–
Net cash inflow (outflow) from financing activities		**5,265**	**(4,573)**
Net increase (decrease) in cash and cash equivalents		**(37)**	**(2,298)**
Cash and cash equivalents at the beginning of the financial year		(2,456)	(142)
Effects of exchange rate changes on cash and cash equivalents		(21)	(16)
Cash and cash equivalents at end of year	**7**	**(2,514)**	**(2,456)**

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

Notes to the Financial Statements

For the year ended 30 June 2012

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 and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Collection House Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) 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).

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2011:

- AASB 9 Financial Instruments

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. None of the items in the financial statements had to be restated as the result of applying these standards.

(iv) 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, and certain classes of property, plant and equipment.

(v) 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 Group'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.

(vi) Changes to presentation – Legal and court costs

Collection House Limited decided in the current financial year to change the classification of its legal and court costs capitalised from non-current to current assets and also to change the related expense recognition from amortisation expense to direct collection costs. The amount of amortisation expense re-classified was $1,620,000 (2011: $844,000). We believe that this will provide more relevant information to our stakeholders. The comparative information has been adjusted accordingly.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Collection House Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Collection House Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group 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 Group controls another entity.

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

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

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 Group.

There are currently no non-controlling interests in the group.

1 Summary of significant accounting policies continued

(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.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Collection House Limited'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 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.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary 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 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, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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) Gains and losses on financial assets

Net gains on financial assets are disclosed in the income statement as collections of Purchased Debt ledgers net of any change in fair value of the ledgers. The company classifies purchased debt ledgers as financial assets at fair value through profit or loss.

The net gain on these assets is disclosed as revenue in the income statement.

Net gains or losses on financial assets are recognised as they accrue.

1 Summary of significant accounting policies continued

(e) Revenue recognition continued

(ii) Rendering of services

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

(iii) 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.

(iv) 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.

(v) Interest income

Interest income is recognised using the effective interest method.

(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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

Collection House Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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.

Taxation of Financial Arrangements legislation

The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 (TOFA legislation) was passed in 2009. The TOFA legislation provides a framework for the taxation of financial arrangements, potentially providing closer alignment between tax and accounting requirements. The regime also includes comprehensive tax hedging rules that would allow the tax recognition of gains and losses on many hedging instruments to be matched to the accounting recognition of gains and losses of the underlying hedged items.

1 Summary of significant accounting policies continued

(f) Income tax continued

Taxation of Financial Arrangements legislation continued

TOFA is mandatory for the Group for the tax year beginning 1 July 2010. There are specific transitional provisions in relation to the taxation of existing financial arrangements outstanding at the transition date (i.e. there is a choice to bring pre-commencement financial arrangements into the new regime subject to a balancing adjustment being calculated on transition to be returned over the next succeeding four tax years). Based on analysis conducted by the Group, the Group has elected to bring pre-commencement financial arrangements into the TOFA regime.

Further, the Group has performed a review in relation to whether to adopt certain tax-timing methodologies under the TOFA regime. As a result of this review, the Group has elected to adopt the reliance on financial reports methodology. This election, together with the transitional election, has the effect of bringing to account deferred tax balances on financial arrangements, that existed at 30 June 2010, over a four year period. Further, there will be a closer alignment between tax and accounting recognition and measure of financial arrangements and consequently less deferred taxes associated with these financial arrangements in future years.

(g) Leases

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 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, 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 Group. The consideration transferred also includes the fair value of any asset or liability resulting from a 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 Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group'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

For the purpose of presentation in the statement of cash flows, 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 in the consolidated balance sheet.

1 Summary of significant accounting policies continued

(k) Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition, and are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(l) Other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets 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 cash flows the carrying amount is reduced to its recoverable amount (fair value), being the anticipated future cash flows discounted to present value.

Net gains on financial assets are disclosed in the income statement as collections of purchased debt ledgers net of any change in fair value of the ledgers.

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 and held to maturity investments are subsequently carried at amortised cost using the effective interest method.

Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

(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.

1 Summary of significant accounting policies continued

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

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) Other current assets

(i) Legal and court costs capitalised

Significant legal and court costs associated with purchased debt and incurred subsequent to acquisition have been capitalised in recognition that it is expected beyond reasonable doubt future economic benefits will flow to the Group as a result of the expenditure being incurred.

These costs are amortised on a straight-line basis over the period of their expected benefit, which is not expected to exceed twelve months.

The policy of capitalising legal and court costs was adopted with effect from 1 July, 2004. The previous policy was to expense such costs as incurred. The new policy was adopted in recognition that the costs represent future economic benefits and as such should be brought to account in the same period as those benefits.

(o) 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 Group, 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).

Expenditure, including that on internally generated assets, is only recognised as an asset when the Group 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	4–12 years
– Computer equipment	3–5 years
– Leased plant and equipment	Term of Lease + expected renewal

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 Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(p) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it 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.

1 Summary of significant accounting policies continued

(p) Intangible assets continued

(i) Goodwill continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (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 Group has an intention and ability to use the asset.

(iii) Other intangible assets

Licences and intellectual property are considered to have a 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.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(r) Borrowings

All borrowings are recognised at their principal amounts subject to set off 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, it 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 consolidated 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) 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.

(t) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1 Summary of significant accounting policies continued

(u) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual 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 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. 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.

The obligations are presented as current liabilities in the Preliminary consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Superannuation Plans

The Company and other controlled entities make statutory contributions to several superannuation funds in accordance with the directions of its 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 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 31.

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 Group 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.

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the equity holders of

1 Summary of significant accounting policies continued

(v) Contributed equity continued

Collection House Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders of Collection House Limited.

(w) 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.

(x) 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 30).

(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.

(y) 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 consolidated 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.

(z) 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.

(aa) New accounting standards and interpretations

In the current year, the Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they may have impacted the disclosures presented in the financial statements.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

(i) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011 7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

1 Summary of significant accounting policies continued

(aa) New accounting standards and interpretations continued

(iii) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011) and AASB 2011-11 *Amendments to AASB 119* (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

(iv) AASB 2011-9 *Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

(v) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

(vi) AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements* (Effective from 1 July 2011 and 1 July 2013 respectively)

(vii) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)

The Group will apply the amendment from the date of mandatory adoption in Australia. It is currently evaluating the impact of the new standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Other than as noted above, the directors anticipate that the adoption of these standards and Interpretations in the future period will have no material impact on the financial statements of the Group.

(ab) Parent entity financial information

The financial information for the parent entity, Collection House Limited, disclosed in note 34 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.

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.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Collection House Limited for any current tax payable assumed and are compensated by Collection House Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Collection House Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

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.

1 Summary of significant accounting policies continued

(ab) Parent entity financial information continued

(iii) Financial guarantees

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

(ac) Change in accounting policy and disclosure

The Group has reviewed its accounting policy with regard to the classification of interest paid and borrowing costs in the Statement of Cash flows. Interest paid and borrowing costs were previously disclosed in operating activities. However, under the provisions available to it in AASB 107 Statement of Cash flows, the Group has decided that a reclassification of these expenses to financing activities better represents the movement of funds to/from all external parties, and improves the disclosure of the flow of funds used to finance the Group's income generating activities.

Changes have been applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, resulting in a restatement of comparative balances in the Statement of Cash flows. This reclassification has no impact on the financial position, performance or earnings per share of the Group for the current and preceding periods.

The effects of the voluntary change in accounting policy for the year ended 30 June 2011 are as follows:

	Previously stated $'000	Adjustment $'000	Currently Stated $'000
Changes in operating activities arising from cash flow movements			
Receipts from customers (inclusive of goods and services tax)	114,486	–	114,486
Payments to suppliers & employees (inclusive of goods and services tax)	(58,009)	–	(58,009)
	56,477	**–**	**56,477**
Interest received	37	–	37
Interest paid	(5,644)	5,644	–
Income taxes refunded (paid)	(2,938)	–	(2,938)
Net cash (outflow) inflow from operating activities	**47,932**	**5,644**	**53,576**
Changes in financing activities arising from cash flow movements			
Proceeds from borrowings	7,008	–	7,008
Borrowing costs	–	(1,410)	(1,410)
Interest paid	–	(4,234)	(4,234)
Dividends paid to company's shareholders	(5,937)	–	(5,937)
Net cash (outflow) inflow from financing activities	**1,071**	**(5,644)**	**(4,573)**

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 cash flow 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 from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

Sensitivity

At 30 June 2012, 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.

(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. During 2012 and 2011, 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.

On 5 August 2011, the Company confirmed an interest rate swap transaction for an amount of $26 million at a fixed rate of 4.50% per annum effective as at 11 August 2011 and continuing until 12 August 2013. On 19 September 2011 the Company confirmed an interest rate swap transaction for an amount of $25.9 million at a fixed rate of 4.20% per annum effective as at 19 October 2011 and continuing until 21 October 2013.

2 Financial risk management continued

(a) Market risk continued

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

Trade interest rate risk continued

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2012		30 June 2011	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	5.5%	87,910	5.8%	76,639
Interest rate swaps (notional principal amount)	5.3%	(51,900)	–%	–
Net exposure to cash flow interest rate risk		36,010		76,639

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 2012, 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 $63,000 lower/higher (2011 – change of 25 bps: $134,000 lower/higher), mainly as a result of higher/lower interest expense from net borrowings. Other components of equity would have been $63,000 lower/higher (2011 – $134,000 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.

(iv) Summarised sensitivity analysis

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

Consolidated		Interest rate risk			
		–25 bps		+25 bps	
30 June 2012	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial liabilities	–	–	–	–	–
Borrowings	36,010	63	63	(63)	(63)
Total increase/(decrease) in financial assets		63	63	(63)	(63)
Total increase/(decrease)		63	63	(63)	(63)

Consolidated		Interest rate risk			
		–25 bps		+25 bps	
30 June 2011	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial liabilities	–	–	–	–	–
Borrowings	76,639	134	134	(134)	(134)
Total increase/(decrease) in financial assets		134	134	(134)	(134)
Total increase/(decrease)		134	134	(134)	(134)

2 Financial risk management continued

(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 21 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.

(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. Cash flow is forecast on a day-to-day basis across the group to ensure that sufficient funds are available to meet requirements on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Financing arrangements

The Group had access to a $100,000,000 Multiple Option Facility throughout the year (2011: $85,000,000). The facility, which was replaced in June 2011, 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 $100,000,000 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 $100,000,000 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 and interest rate swaps entered into during the year are set out in note 17.

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.

2 Financial risk management continued

(c) Liquidity risk continued

Contractual maturities of financial liabilities	Less than 6 months	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
At 30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non derivatives							
Non interest bearing	8,272	–	–	–	–	8,272	–
Variable rate	2,661	–	85,100	–	–	87,761	–
Total non derivatives	**10,933**	**–**	**85,100**	**–**	**–**	**96,033**	**–**

At 30 June 2011	Less than 6 months	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
Non derivatives							
Non interest bearing	6,238	–	–	–	–	6,238	–
Variable rate	2,638	–	73,900	–	–	76,538	–
Total non derivatives	**8,876**	**–**	**73,900**	**–**	**–**	**82,776**	**–**

(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.

2 Financial risk management continued

(d) Fair value measurements continued

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 measurement 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.

AASB7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value 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 9.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of this nature is the current bid price. These instruments are included in level 1. The Group has no level 1 financial instruments.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group has no level 2 financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for purchased debt ledgers which comprise all of the financial instruments held by the Group.

The changes in level 3 instruments for the year ended 30 June 2012 are set out in note 9.

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.

As a result of the recent Global Financial crisis, and recent experience, the reasonably likely range of the sensitivity analysis has stabilised from the prior year and has been set at 2.63% (2011: 3.34%).

2 Financial risk management continued

(d) Fair value measurements continued

Subsequent measurement of carrying value continued

Summarised sensitivity analysis continued

Other than as set out in the following table, there are no other reasonably possible alternative assumptions that would have a material impact on fair value.

Consolidated		**Recoverability**			
		–2.63%		**+2.63%**	
30 June 2012	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Financial assets					
Financial assets at FVTPL	185,167	(762)	(762)	762	762
Total increase/(decrease) in financial assets		(762)	(762)	762	762
Total increase/(decrease)		(762)	(762)	762	762

Consolidated		**Recoverability**			
		–3.34%		**+3.34%**	
30 June 2011	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Financial assets					
Financial assets at FVTPL	162,037	(747)	(747)	747	747
Total increase/(decrease) in financial assets		(747)	(747)	747	747
Total increase/(decrease)		(747)	(747)	747	747

(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 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. The Board of Directors has authorised the use of interest rate swaps as a tool to manage interest rate risk. At 30 June 2012, the group has entered into two interest rate swaps as per note 2(a).

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 Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group 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

Each six months the Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). 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 13 for details of these assumptions and the potential impact of changes to the assumptions.

3 Critical accounting estimates and judgements continued

(a) Critical accounting estimates and assumptions continued

(ii) Estimated impairment of non financial assets and intangible assets other than goodwill

Each six months the Group tests 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.

(iii) 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) 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(o) 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: Commission Collections, 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.

Commission Collections

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;

4 Segment information continued

(b) Segment information provided to the Board

2012	Commission Collections $'000	Account Asset Management $'000	Intersegment eliminations/ unallocated $'000	Total continuing operations $'000	Discontinued operations $'000	Consolidated $'000
Segment revenue						
Sales to external customers	37,324	–	–	37,324	–	37,324
Intersegment sales	709	–	–	709	–	709
Total sales revenue	38,033	–	–	38,033	–	38,033
Collections of Purchased Debt Ledgers	–	88,726	–	88,726	–	88,726
Fair Value movement on Purchased Debt ledgers	–	(37,344)	–	(37,344)	–	(37,344)
Net gain on financial assets	–	51,382	–	51,382	–	51,382
Total segment revenue	**38,033**	**51,382**	**–**	**89,415**	**–**	**89,415**
Intersegment elimination				(276)	–	(276)
Consolidated revenue				**89,139**	**–**	**89,139**
Segment result						
Segment result (notes (ii))	**6,132**	**21,676**	**–**	**27,808**	**–**	**27,808**
Interest expense and borrowing costs				(6,179)	–	(6,179)
Unallocated revenue less unallocated expenses				(3,880)	–	(3,880)
Profit before income tax				17,749	–	17,749
Income tax expense				(5,067)	–	(5,067)
Profit for the year				**12,682**	**–**	**12,682**
Segment assets and liabilities						
Segment assets	**125,860**	**186,131**	**(89,160)**	**222,831**	**(220)**	**222,611**
Unallocated assets				–	–	–
Total assets				**222,831**	**(220)**	**222,611**
Segment liabilities	**12,861**	**92,232**	**(93,244)**	**11,849**	**–**	**11,849**
Unallocated liabilities				101,592	–	101,592
Total liabilities				**113,441**	**–**	**113,441**
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	1,918	62,130	–	64,048	–	64,048
Total acquisitions				64,048	–	64,048
Depreciation and amortisation expense	1,201	444	241	1,886	–	1,886
Total depreciation and amortisation				1,886	–	1,886
Other non-cash expenses	257	37,560	436	38,253	–	38,253

4 Segment information continued

(b) Segment information provided to the Board continued

2011	Commission Collections $'000	Account Asset Management $'000	Intersegment eliminations/ unallocated $'000	Total continuing operations $'000	Discontinued operations $'000	Consolidated $'000
Segment revenue						
Sales to external customers	31,327	–	–	31,327	–	31,327
Intersegment sales	846	–	–	846	–	846
Total sales revenue	32,173	–	–	32,173	–	32,173
Collections of Purchased Debt Ledgers	–	78,042	–	78,042	–	78,042
Fair Value movement on Purchased Debt ledgers	–	(33,073)	–	(33,073)	–	(33,073)
Net gain on financial assets	–	44,969	–	44,969	–	44,969
Change in Fair Value of Purchased Debt Ledgers	32,173	44,969	–	77,142	–	77,142
Intersegment elimination				(364)	–	(364)
Consolidated revenue				76,778	–	76,778
Segment result						
Segment result (notes (ii))	5,393	18,885	–	24,278	–	24,278
Interest expense and borrowing costs				(5,645)	–	(5,645)
Unallocated revenue less unallocated expenses				(4,050)	–	(4,050)
Profit before income tax				14,583	–	14,583
Income tax expense				(4,466)	–	(4,466)
Profit for the year				10,117	–	10,117
Segment assets and liabilities						
Segment assets	133,290	163,640	(98,237)	198,693	(216)	198,477
Intersegment elimination				–	–	–
Unallocated assets				–	–	–
Total assets				198,693	(216)	198,477
Segment liabilities	10,878	100,789	(102,287)	9,380	–	9,380
Intersegment elimination				–	–	–
Unallocated liabilities				93,233	–	93,233
Total liabilities				102,613	–	102,613
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	2,695	49,277	–	51,972	–	51,972
Total acquisitions				51,972	–	51,972
Depreciation and amortisation expense	1,281	421	248	1,950	–	1,950
Total depreciation and amortisation				1,950	–	1,950
Other non-cash expenses	131	33,250	289	33,670	–	33,670

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 2012 $'000	30 June 2011 $'000	30 June 2012 $'000	30 June 2011 $'000	30 June 2012 $'000	30 June 2011 $'000
Australia	83,766	71,283	211,202	187,278	63,041	51,449
New Zealand	4,940	5,012	11,409	11,199	1,007	523
	88,706	76,295	222,611	198,477	64,048	51,972

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

	Commission Collections		Account Asset Management	
	30 June 2012 %	30 June 2011 %	30 June 2012 %	30 June 2011 %
Margin on sales revenue	16	17	42	42

(d) Other segment information

Sales between segments are carried out at arms length and are eliminated on consolidation. The revenue from external parties reported to the Chief Operating Decision Maker is consistent with that in the income statement.

5 Expenses

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements, plant and equipment	1,886	1,950
Total depreciation	1,886	1,950
Amortisation		
Other intangibles	69	–
Stamp Duty	187	107
Total amortisation	256	107
Total depreciation and amortisation	2,142	2,057
Finance expenses		
Interest and finance charges paid/payable	6,365	5,786
Amount capitalised (a)	(186)	(141)
Finance costs expensed	6,179	5,645
Fair Value losses on other financial assets	37,344	33,100
	37,344	33,100
Rental expense relating to operating leases		
Minimum lease payments	3,775	3,450
Total rental expense relating to operating leases	3,775	3,450

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 5.5% (2011 – 5.9%).

6 Income tax expense

(a) Income tax expense

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Income tax expense – Profit from continuing operations	5,067	4,466
Income tax expense is attributable to:		
Current tax	9,377	7,995
Deferred tax	(2,941)	(3,405)
Under (over) provided in previous years	(1,369)	(124)
Aggregate income tax expense	5,067	4,466
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 12)	(123)	224
(Decrease) increase in deferred tax liabilities (note 18)	(2,783)	(3,629)
Reduction in tax rate	(35)	–
	(2,941)	(3,405)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Profit from continuing operations before income tax expense	17,749	14,583
Profit from discontinuing operations before income tax expense	–	–
Tax at the Australian tax rate of 30% (2011 30%)	5,325	4,375
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenses	90	99
Effect of tax rates in foreign jurisdictions	3	–
Tax exempt income/loss	65	–
Change in recognised temporary differences	(35)	–
	5,448	4,474
Adjustments for current tax of prior periods	(381)	(8)
Income tax expense	5,067	4,466

7 Current assets – Cash and cash equivalents

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Cash at bank and in hand	296	283
	296	283

(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	
	30 June 2012 $'000	**30 June 2011 $'000**
Bank overdraft right of set-off		
Balances as above	296	283
Bank overdrafts (note 15)	(2,810)	(2,739)
Balances per statement of cash flows	(2,514)	(2,456)

(b) Risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) 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.

8 Current assets – Trade and other receivables

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Net trade receivables		
Trade receivables	3,776	2,939
Provision for impairment of receivables ((a))	(93)	(172)
	3,683	2,767
Other receivables((c))	3,115	2,793
Prepaid expenses	921	1,132
	7,719	6,692

8 Current assets – Trade and other receivables continued

(a) Impaired trade receivables

As at 30 June 2012 current trade receivables of the Group with a nominal value of $210,000 (2011 – $269,000) were impaired. The amount of the provision was $93,000 (2011 – $172,000). 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	
	30 June 2012 $'000	**30 June 2011 $'000**
1 to 3 months	–	–
Over 3 months	210	269
	210	269

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

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
At 1 July	172	319
Provision for impairment recognised during the year	9	46
Receivables written off during the year as uncollectable	(78)	(92)
Unused amount reversed	(10)	(101)
	93	172

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 2012, trade receivables of the Group of $1,321,000 (2011 – $1,380,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The majority of the 2012 past due amount was collected within 30 days of the end of the financial year.

The ageing analysis of these trade receivables is as follows:

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Up to 3 months	1,134	1,299
Over 3 months	187	81
	1,321	1,380

8 Current assets – Trade and other receivables continued

(c) Other receivables

These amounts relate to accrued revenue, rental bonds and other assets.

(d) 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.

(e) 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 Group and the credit quality of the entity's trade receivables.

9 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 2012. 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	
	30 June 2012 $'000	**30 June 2011 $'000**
Current and Non Current		
At beginning of year	162,037	146,485
Net additions*	60,474	48,625
Collections disclosed in profit	(88,726)	(78,042)
Fair value gain/(loss) disclosed in profit	51,382	44,969
At end of year	185,167	162,037

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Other Financial Assets at fair value through profit and loss	185,167	162,037
	185,167	162,037

* Net additions are represented by total additions for the year, less $533,000 (2011: $479,000) in relation to incidental disposals of other financial assets.

9 Other financial assets at fair value through profit or loss continued

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

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Current	42,866	44,598
Non Current	142,301	117,439
	185,167	162,037

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.

10 Current assets – Other current assets

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Other deposits	15	17
Legal and court costs capitalised net	318	414
	333	431

11 Non-current assets – Property, plant and equipment

	Plant and equipment $'000	Leasehold improve-ments $'000	Leased plant & equipment $'000	Work in progress $'000	Total $'000
At 1 July 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
Year 30 June 2011					
Opening net book amount	4,206	2,297	–	69	6,572
Additions	231	5	–	747	983
Disposals	(46)	(2)	–	–	(48)
Depreciation charge	(977)	(309)	–	–	(1,286)
Transfers	29	692	–	(721)	–
Closing net book amount	3,443	2,683	–	95	6,221
At 30 June 2011					
Cost or fair value	7,823	3,534	2	95	11,454
Accumulated depreciation	(4,380)	(851)	(2)	–	(5,233)
Net book amount	3,443	2,683	–	95	6,221

	Plant and equipment $'000	Leasehold improve-ments $'000	Leased plant & equipment $'000	Work in progress $'000	Total $'000
Year 30 June 2012					
Opening net book amount	3,443	2,683	–	95	6,221
Additions	173	15	–	273	461
Disposals	(104)	(36)	–	–	(140)
Depreciation charge	(990)	(354)	–	–	(1,344)
Transfers	22	181	–	(203)	–
Closing net book amount	2,544	2,489	–	165	5,198
At 30 June 2012					
Cost or fair value	6,837	3,656	–	165	10,658
Accumulated depreciation	(4,293)	(1,167)	–	–	(5,460)
Net book amount	2,544	2,489	–	165	5,198

(a) Non-current assets pledged as security

Refer to note 17 for information on non-current assets pledged as security by the Group.

12 Non-current assets – Deferred tax assets

	Consolidated 30 June 2012 $'000	Consolidated 30 June 2011 $'000
The balance comprises temporary differences attributable to:		
Tax losses	274	196
Accruals	362	300
Future deductible wind-up costs	48	24
Doubtful debts	28	52
Provisions and employee benefits	867	885
Sundry	29	41
	1,608	1,498
Set-off of deferred tax liabilities pursuant to set-off provisions (note 18)	(1,608)	(1,498)
Net deferred tax assets	–	–
Movements:		
Opening balance at 1 July	1,498	1,722
Change in tax rate	(13)	–
Credited/(charged) to the income statement (note 6)	123	(224)
Closing balance at 30 June	1,608	1,498

Movements – Consolidated	Tax losses $'000	Employee benefits $'000	Doubtful Debts $'000	Receivables impairment & accruals $'000	Future deductible wind-up costs $'000	Sundry $'000	Total $'000
At 1 July 2010	152	813	97	262	343	55	1,722
– to profit or loss	44	72	(45)	38	(319)	(14)	(224)
At 30 June 2011	196	885	52	300	24	41	1,498

Movements – Consolidated	Tax losses $'000	Employee benefits $'000	Doubtful Debts $'000	Receivables impairment & accruals $'000	Future deductible wind-up costs $'000	Sundry $'000	Total $'000
At 30 June 2011	196	885	52	300	24	41	1,498
– to profit or loss	78	(18)	(24)	62	24	(12)	110
At 30 June 2012	274	867	28	362	48	29	1,608

13 Non-current assets – Intangible assets

	Goodwill $'000	Computer software $'000	Other intangible assets $'000	Work in progress Cost * $'000	Total $'000
At 1 July 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
Year ended 30 June 2011					
Opening net book amount	18,291	1,521	69	1,905	21,786
Additions internal development	–	81	–	1,632	1,713
Amortisation charge	–	(665)	–	–	(665)
Disposals	(6)	(15)	–	–	(21)
Transfers	–	808	–	(808)	–
Closing net book amount	18,285	1,730	69	2,729	22,813
At 30 June 2011					
Cost	22,048	8,179	69	2,729	33,025
Accumulated amortisation and impairment	(3,763)	(6,449)	–	–	(10,212)
Net book amount	18,285	1,730	69	2,729	22,813

	Goodwill $'000	Computer software $'000	Other intangible assets $'000	Work in progress Cost * $'000	Total $'000
Year ended 30 June 2012					
Opening net book amount	18,285	1,730	69	2,729	22,813
Exchange differences	2	–	–	–	2
Acquisition of business	254	–	–	–	254
Additions internal development	–	3	–	1,437	1,440
Amortisation charge	–	(542)	(69)	–	(611)
Disposals	–	–	–	–	–
Transfers	–	108	–	(108)	–
Closing net book amount	18,541	1,299	–	4,058	23,898
At 30 June 2012					
Cost	22,304	8,290	–	4,058	34,652
Accumulated amortisation and impairment	(3,763)	(6,991)	–	–	(10,754)
Net book amount	18,541	1,299	–	4,058	23,898

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

13 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.

2012	Commission collections $'000	Account asset management $'000	Total $'000
Goodwill	18,541	–	18,541
	18,541	–	18,541

2011	Commission collections $'000	Account asset management $'000	Total $'000
Goodwill	18,285	–	18,285
	18,285	–	18,285

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 are no intangible assets associated with the Account asset management CGU, therefore no further analysis of this segment is required.

(b) Key assumptions used for value in use calculations

CGU	Growth rate (revenue)*		Growth rate (expenses) **		Discount rate ***	
	30 June 2012 %	30 June 2011 %	30 June 2012 %	30 June 2011 %	30 June 2012 %	30 June 2011 %
Commission Collections	–	–	2.50	2.80	4.00	6.17

* Revenue growth has been set at Nil for the period of the calculation to minimise the risk of overstating the Value in use.
** Expense growth rate has been set at the current inflation rate for the period of the calculation.
*** In performing the value in use calculation, the Group has applied the pre-tax discount rate to discount the forecast future attributable pre-tax cash flows. The discount rate used is based upon the risk-free rate adjusted to reflect specific risks relating to the relevant segment in which it operates.

(c) Impairment charge

As a result of the impairment evaluation, the Group has determined that the carrying value of intangible assets does not exceed their value-in-use, and no impairment charge was required (2011: Nil).

13 Non-current assets – Intangible assets continued

(d) Impact of possible changes in key assumptions

Commission collections

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 2012 rather than 4.00%, 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 2.50%, 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.

14 Current liabilities – Trade and other payables

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Trade payables	2,613	1,582
Other payables	6,321	5,366
	8,934	6,948

(a) Risk exposure

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

15 Current liabilities – Borrowings

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Secured		
Bank overdraft	2,810	2,739
Total secured current borrowings	2,810	2,739
Unsecured		
Unsecured – Other loans	–	5
Total unsecured current borrowings	–	5
Total current borrowings	2,810	2,744

Further information relating to Borrowings is set out in note 17.

16 Current liabilities – Provisions

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Employee benefits	2,354	2,044
Other	25	28
	2,379	2,072

(a) Movements in provisions

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

	Other $'000
2012	
Current	
Carrying amount at start of year	28
– additional provisions recognised	124
– payments/other sacrifices of economic benefits	(127)
Carrying amount at end of year	25

	Other $'000
2011	
Current	
Carrying amount at start of year	41
– additional provisions recognised	98
– payments/other sacrifices of economic benefits	(111)
Carrying amount at end of year	28

17 Non-current liabilities – Borrowings

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Secured		
Secured – Bank loans	85,100	73,900
Total secured non-current borrowings	85,100	73,900
Unsecured		
Total unsecured non-current borrowings	–	–
Total non-current borrowings	85,100	73,900

(a) Secured liabilities and assets pledged as security

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
The total secured liabilities (current and non-current) are as follows:		
Bank overdrafts and bank loans	87,910	76,639
Total secured liabilities	87,910	76,639

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.

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

		Consolidated	
	Notes	30 June 2012 $'000	30 June 2011 $'000
Current			
Floating charge			
Cash and cash equivalents	7	296	283
Receivables	8	7,719	5,560
Financial assets at fair value through profit or loss	9	42,866	44,598
Total current assets pledged as security		50,881	50,441
Non-current			
Floating charge			
Financial assets at fair value through profit or loss	9	142,301	117,439
Plant and equipment	11	5,198	6,221
Total non-current assets pledged as security		147,499	123,660
Total assets pledged as security		198,380	174,101

17 Non-current liabilities – Borrowings continued

(b) Fair value

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

Group	At 30 June 2012 Carrying amount $'000	At 30 June 2012 Fair value $'000	At 30 June 2011 Carrying amount $'000	At 30 June 2011 Fair value $'000
On balance sheet (i)				
Non-traded financial liabilities				
Bank overdrafts	2,810	2,810	2,739	2,739
Bank loans	85,100	85,100	73,900	73,900
	87,910	87,910	76,639	76,639

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 rolling nature of the loan instruments is designed to provide the Group with maximum flexibility within the overall facility, however the overall facility is classified as non-current.

(c) Risk exposures

Information about the Group'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.

On 5 August 2011, the Company confirmed an interest rate swap transaction for an amount of $26 million at a fixed rate of 4.50% per annum effective as at 11 August 2011 and continuing until 12 August 2013. On 19 September 2011 the Company confirmed an interest rate swap transaction for an amount of $25.9 million at a fixed rate of 4.20% per annum effective as at 19 October 2011 and continuing until 21 October 2013.

A financial asset or financial liability has not been recognised in relation to the arrangement, as it is not considered to have a material impact on the results.

18 Non-current liabilities – Deferred tax liabilities

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
The balance comprises temporary differences attributable to:		
Prepayments	7	7
Purchased debt	8,185	12,093
Fixed Assets	1,214	157
Sundry	78	58
	9,484	12,315
Total deferred tax liabilities	9,484	12,315
Set-off of deferred tax liabilities pursuant to set-off provisions (note 12)	(1,608)	(1,498)
Net deferred tax liabilities	7,876	10,817

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Movements:		
Opening balance at 1 July	12,315	15,944
Change in tax rate	(48)	–
Charged/(credited) to the income statement (note 6)	(2,783)	(3,629)
Closing balance at 30 June	9,484	12,315

Movements – Consolidated	**Property, plant and equipment $'000**	**Prepayments $'000**	**Purchased debt $'000**	**Other $'000**	**Total $'000**
At 1 July 2010	92	7	15,836	9	15,944
– to profit or loss	65	–	(3,743)	49	(3,629)
At 30 June 2011	157	7	12,093	58	12,315

Movements – Consolidated	**Property, plant and equipment $'000**	**Prepayments $'000**	**Purchased debt $'000**	**Other $'000**	**Total $'000**
At 30 June 2011	157	7	12,093	58	12,315
– to profit or loss	1,057	–	(3,908)	20	(2,831)
At 30 June 2012	1,214	7	8,185	78	9,484

19 Non-current liabilities – Provisions

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Provisions – Employee benefits	307	360
	307	360

20 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.

21 Contributed equity

(a) Share capital

	Company		Company	
	2012 Shares	2011 Shares	2012 $'000	2011 $'000
Ordinary shares				
Fully paid	108,159,097	97,321,881	74,324	67,256
	108,159,097	97,321,881	74,324	67,256
Total contributed equity			74,324	67,256

(b) Movements in ordinary share capital:

Issues of ordinary shares during the year

Date	Details	Number of shares	$'000
1 July 2010	Opening balance	97,321,881	67,256
30 June 2011	Closing balance	97,321,881	67,256
1 July 2011	Opening balance	97,321,881	67,256
18 July 2011	Employee options exercised	15,000	7
19 October 2011	Employee options exercised	1,207,500	595
1 November 2011	Employee options exercised	150,000	74
25 November 2011	Dividend reinvestment plan issues	1,210,745	849
30 November 2011	Share issue	4,332,668	3,037
	Less: Transaction costs arising on share issue	–	(183)
20 January 2012	Share issue	2,800,000	1,963
23 March 2012	Dividend reinvestment plan issues	1,121,303	860
	Less: Transaction costs arising on share issue	–	(134)
30 June 2012	Closing balance	108,159,097	74,324

(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.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

21 Contributed equity continued

(d) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 5% discount to the market price.

(e) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 31.

(f) Options

Information relating to options provided as part of 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 31.

(g) 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 cash flow, 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 2012 and 2011 financial years.

22 Reserves and retained earnings

(a) Reserves

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Share-based payments reserve	1,421	1,271
Foreign currency translation reserve	(1,274)	(1,165)
	147	106

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Movements:		
Share-based payments reserve		
Balance 1 July	1,271	1,050
Option expense	150	221
Balance 30 June	1,421	1,271

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Movements:		
Foreign currency translation reserve		
Balance 1 July	(1,165)	(756)
Currency translation differences arising during the year	(109)	(409)
Balance 30 June	(1,274)	(1,165)

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Balance 1 July	28,502	24,322
Net profit for the year	12,682	10,117
Items of other comprehensive income recognised directly in retained earnings		
Dividends	(6,485)	(5,937)
Balance 30 June	34,699	28,502

(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.

23 Dividends

(a) Ordinary shares

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Fully franked final dividend for the year ended 30 June 2011 – 3.1 cents per share (2010 – 3.0 cents)	3,060	2,920
Fully franked interim dividend for the year ended 30 June 2012 – 3.2 cents per share (2011: 3.1 cents)	3,425	3,017
	6,485	5,937

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Dividends paid in cash during the years ended 30 June 2012 and 2011 were as follows:		
Paid in cash	4,776	5,937
Satisfied under the Dividend Reinvestment Plan	1,709	–
	6,485	5,937

(b) Dividends not recognised at the end of the reporting period

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
In addition to the above dividends, since year end the directors have recommended the payment of a fully franked final dividend of 3.2 cents per fully paid ordinary share (2011 3.1 cents, fully franked). The aggregate amount of the proposed dividend expected to be paid on 19 October 2012 out of retained profits and a positive net balance sheet at 30 June 2012, but not recognised as a liability at year end, is	3,461	3,017
	3,461	3,017

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 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 2013.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Franking credits available for subsequent financial years based on a tax rate of 30% (2011 – 30%)	11,853	6,750
	11,853	6,750

The above amounts represent the balance of the franking account as at the end of the reporting period, 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.

24 Key management personnel disclosures

(a) Directors

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

(i) Chairman – Non-executive director

D.P. Liddy (appointed Chairman on 27 March 2012)

(ii) Executive director

Nil

(iii) Non-executive directors

J. M. Pearce (stepped down as Chairman on 27 March 2012)
D. G. Punches
A. F. Coutts
W. W. Kagel (retired 28 October 2011)
K. J. Daly
D. M. Gray

(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:

Matthew Thomas	Chief Executive Officer	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 and Corporate Services	Collection House Limited

All of the above persons were also key management persons during the year ended 30 June 2011.

(c) Key management personnel compensation

	Consolidated	
	30 June 2012 $	**30 June 2011 $**
Short-term employee benefits	1,877,996	2,020,704
Post-employment benefits	161,758	152,590
Share-based payments	150,516	187,905
	2,190,270	2,361,199

Detailed remuneration disclosures are provided in sections A–D of the remuneration report on pages 34 to 38.

24 Key management personnel disclosures continued

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

(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 four 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 31.

(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.

(iii) Option holdings

The numbers of options over ordinary shares in the Group 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.

2012

Name	Balance at start of the year	Granted as compen-sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Collection House Limited							
A. Aveling	2,000,000	–	(1,200,000)	–	800,000	–	800,000
Other key management personnel of the Group							
M. Thomas	1,729,000	–	(150,000)	–	1,579,000	–	1,579,000
A. Ralston	791,000	–	–	–	791,000	120,000	671,000
M. Watkins	668,000	–	–	–	668,000	135,000	533,000
K. Lynam	593,000	–	–	–	593,000	90,000	503,000

2011

Name	Balance at start of the year	Granted as compen-sation	Exercised	Other changes*	Balance at end of the year	Vested and exercisable	Unvested
Directors of Collection House Limited							
A. Aveling	4,000,000	–	–	(2,000,000)	2,000,000	1,200,000	800,000
Other key management personnel of the Group							
M. Thomas	500,000	1,479,000	–	(250,000)	1,729,000	150,000	1,579,000
A. Ralston	400,000	591,000	–	(200,000)	791,000	120,000	671,000
M. Watkins	425,000	443,000	–	(200,000)	668,000	135,000	533,000
K. Lynam	275,000	443,000	–	(125,000)	593,000	90,000	503,000

* "Other changes" represent options which have expired. For further information regarding the expiry of options see Note 31.

24 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.

2012

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				
David Liddy	–	–	58,000	58,000
John Pearce	11,765,538	–	129,652	11,895,190
Dennis Punches	19,101,266	–	351,269	19,452,535
Tony Coutts	4,464,600	–	357,065	4,821,665
Bill Kagel (retired 28 October 2011)	1,551,269	–	(551,269)	1,000,000
Kerry Daly	200,000	–	108,844	308,844
David Gray	–	–	100,000	100,000
Other key management personnel of the Group				
Ordinary shares				
M. Thomas	130,000	150,000	–	280,000
A. Ralston	–	–	–	–
M. Watkins	25,000	–	–	25,000
K. Lynam	6,000	–	–	6,000

24 Key management personnel disclosures continued

2011

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	11,461,015	304,523	–	11,765,538
Dennis Punches	17,907,384	1,193,882	–	19,101,266
Tony Coutts	4,464,600	–	–	4,464,600
Bill Kagel	951,269	600,000	–	1,551,269
Kerry Daly	140,000	60,000	–	200,000
David Gray (appointed 28 June 2011)				
Tony Aveling (retired 31 July 2010)	505,000	–	–	505,000
Other key management personnel of the Group				
Ordinary shares				
M. Thomas	102,000	28,000	–	130,000
A. Ralston	–	–	–	–
M. Watkins	25,000	–	–	25,000
K. Lynam	11,000	(5,000)	–	6,000

* for Bill Kagel, balance at date of retirement, 28 October 2011.
** for Tony Aveling, balance at date of retirement, 31 July 2010.

(e) Loans to key management personnel

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

Group	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Number in Group at the end of the year
2012	–	–	–	–	–
2011	–	–	–	–	–

(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 2012, 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 or as employees.

25 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 2012 $	**30 June 2011 $**
Audit services		
Audit and review of financial reports	137,200	148,000
Audit related services	85,500	82,500
Total auditors' remuneration	222,700	230,500

26 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

Claims

There were no claims of a material nature during the relevant period.

Guarantees

(a) Bank guarantees (secured) exist in respect of satisfactory contract performance in the normal course of business for the Group amounting to $1,517,091.34 (2011: $1,783,803.76). As at 20 June, the Company was advised that a new bank guarantee was required to secure performance of the Victorian office premises lease, as a result of the sale of the building. The replacement bank guarantee in favour of the new landlord will be in the amount of $347,307.17 and will be provided in accordance with the terms and conditions of the Lease. The replacement bank guarantee, which will be secured in FY2013, will increase the Group bank guarantees to $1,535,453.42.

(b) Guarantees and Indemnities (secured) given by the Company and certain of its subsidiaries in support of the existing Multiple Option Facility provided by Westpac Banking Corporation, are currently in place.

Paragraphs (a) and (b) above are secured by a Fixed and Floating charge over the assets of the Company and certain of its subsidiaries of the Group and may give rise to liabilities in the Group, if the associates do not meet their respective 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.

27 Commitments

(a) Capital commitments

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

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Other financial assets at fair value through the Profit and Loss	32,471	29,441
	32,471	29,441

(b) Non-cancellable operating leases

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

	Consolidated	
	30 June 2012 $'000	30 June 2011 $'000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	3,790	3,484
Later than one year but not later than five years	11,480	10,899
Later than five years	656	642
	15,926	15,025

28 Related party transactions

(a) Group companies

Details of the parent company, the ultimate parent company and interests in subsidiaries are set out in note 29.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

(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.

29 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	
Name of entity	**2012 %**	**2011 %**
Parent and Ultimate Parent company:		
Collection House Limited		
Controlled entities incorporated in Australia		
CashFlow Accelerator 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
PH Collections (Australasia) Pty Ltd *	100	–
Controlled entities incorporated in New Zealand		
Collection House (NZ) Limited	100	100
Lion Finance Limited	100	100
Controlled entities incorporated in Philippines		
Collection House International BPO, Inc **	100	–
Subsidiaries de-registered in 2012		
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
1071066 Limited (formerly abr.nz Limited) ****	100	100

* PH Collections (Australasia) Pty Ltd was purchased on 1 July 2011.
** Collection House International BPO, Inc commenced trading on 10 May 2012. While Collection House Limited holds legal and beneficial ownership of 5 issued shares in the subsidiary, it has beneficial ownership of 5 issued shares in the subsidiary, held on trust for Collection House Limited by each of the five appointed directors of the subsidiary, in accordance with Philippines law, representing all of the issued shares in the subsidiary currently.
*** These controlled entities have not traded during the financial year and were voluntarily de-registered on 2 May 2012.
**** This controlled entity has not traded during the financial year and was voluntarily struck off on 8 July 2011.

30 Earnings per share

(a) Basic earnings per share

	Consolidated	
	30 June 2012 Cents	**30 June 2011 Cents**
From continuing operations attributable to the ordinary equity holders of the company	12.3	10.4
Total basic earnings per share attributable to the ordinary equity holders of the company	12.3	10.4

30 Earnings per share continued

(b) Diluted earnings per share

	Consolidated	
	30 June 2012 Cents	**30 June 2011 Cents**
From continuing operations attributable to the ordinary equity holders of the company	12.2	10.3
Total diluted earnings per share attributable to the ordinary equity holders of the company	12.2	10.3

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

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	12,682	10,117
	12,682	10,117
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	12,682	10,117
	12,682	10,117

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

	Consolidated	
	30 June 2012 Number	**30 June 2011 Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	103,415,507	97,321,881
Adjustments for calculation of diluted earnings per share:		
Options	931,066	990,650
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	104,346,573	98,312,531

(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 31.

31 Share-based payments

(a) Share options for the former MD/CEO (Mr Anthony Aveling)

In February 2007, the Shareholders approved the issue of 2,000,000 share options in favour of the then MD/CEO as part of his Employment Agreement. Those options expired on 28 February 2011. None of these options were exercised before expiry.

In October 2008, the Shareholders approved the issue of a further 2,000,000 share options in favour of the then MD/CEO as part of his varied Employment Agreement. The full terms of the options were contained in the Notice of General Meeting announced to Shareholders on 19 September 2008. The terms of Mr Aveling's Employment Agreement, as varied, provided that Mr Aveling may exercise those options when and if certain qualifying price hurdles were achieved before the expiry date namely, 25 June 2013 and the options had vested (the Vesting Date was 25 June 2011). 60% of the 2,000,000 options (1,200,000 options) became exercisable on 25 June 2011 and 1,200,000 options were exercised during the Relevant Period. A summary of these options is identified below.

	MD/CEO options
Grant date	31 October 2008
Earliest possible vesting date	25 June 2011
Performance hurdles	**Tranche** / **# of options** / **Qualifying Price**: 1 / 400,000 / 0.60 2 / 400,000 / 0.70 3 / 400,000 / 0.80 4 / 400,000 / 0.90 5 / 400,000 / 1.00
Expiry date	25 June 2013, subject to the following, in the event that: (a) the MD/CEO's employment ceased due to genuine retirement, death, disablement, sickness or if the employment was terminated without cause, then the MD/CEO would be entitled to options granted prior to the date of cessation and for which the vesting date had occurred or which subsequently occurred, prior to the expiry date. (b) the Company terminated the MD/CEO's employment for poor performance (in the reasonable opinion of the Company), the then MD/CEO may only exercise within 12 months after the date of termination. All other options immediately lapsed. (c) the MD/CEO resigned or had his employment terminated for cause, the MD/CEO may only exercise qualified and vested options within 1 month of the date of termination those options which have vested prior to the date of termination or resignation. All other options immediately lapsed.
Exercise conditions and Vesting Date	The options vest on the later of: (a) 25 June 2011; and (b) for each tranche of options, as follows: 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) was satisfied; B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) was satisfied; C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) was satisfied; D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) is satisfied; and E. In respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) is satisfied.

31 Share-based payments continued

(a) Share options for the former MD/CEO (Mr Anthony Aveling) continued

	MD/CEO options
Exercise price	$0.4927 per option
Share price at grant date	$0.48
Expected price volatility	55.6%
Expected dividend yield	9%
Risk-free interest rate	6.64%

The expected price volatility was usually based on the historic volatility (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	$0.153
2	$0.152
3	$0.151
4	$0.148
5	$0.146

(b) Executive Share Option Plan

Participation in the Executive Share Option Plan (ESOP1) to 31 July 2010 was determined by the then MD/CEO. Participation for the remainder of the relevant period to 30 June 2012 was determined by the Board.

On 15 June 2007, 1,250,000 options were issued to a number of eligible employees pursuant to ESOP1. On 26 October 2007, at an Annual General Meeting, the shareholders approved ESOP1 and ratified the prior issue of options. Those options expired on 28 February 2011.

On 26 June 2008, the Board resolved that the then MD/CEO be authorised, at his discretion, to offer certain options on suitable terms and conditions to eligible employees under ESOP1.

On 18 July 2008, the MD/CEO issued a further 1,437,500 options to a number of eligible employees pursuant to ESOP1. A summary of these options is identified below as EXEC2.

On 2 December 2010, the Board approved a new Executive Share Option Plan (ESOP2). The Board also authorised that its Chairman be authorised to offer certain options in the case of the CEO and/or Matt Thomas, CEO was authorised, in the case of the other eligible employees, to offer Options to those eligible employees under ESOP2, at his/their discretion respectively.

On 1 March 2011, the Chairman issued or caused to be issued 2,956,000 options to a number of eligible employees pursuant to ESOP2. A summary of these options is identified below as EXEC3.

Future options may be issued pursuant to ESOP2 subject to not only individual performance being considered, but also Company performance hurdles being achieved before options may be exercised.

31 Share-based payments continued

(b) Executive Share Option Plan continued

<table>
<tr><th></th><th>EXEC2 options</th><th>EXEC3 options</th></tr>
<tr><td>Grant date</td><td>18 July 2008</td><td>1 March 2011</td></tr>
<tr><td>Earliest possible vesting date</td><td>25 June 2011</td><td>20 December 2012</td></tr>
<tr><td>Performance hurdles</td><td>
<table>
<tr><th>Tranche</th><th># of options</th><th>Hurdle Price</th></tr>
<tr><td>1</td><td>287,500</td><td>0.60</td></tr>
<tr><td>2</td><td>287,500</td><td>0.70</td></tr>
<tr><td>3</td><td>287,500</td><td>0.80</td></tr>
<tr><td>4</td><td>287,500</td><td>0.90</td></tr>
<tr><td>5</td><td>287,500</td><td>1.00</td></tr>
</table>
</td><td>
<table>
<tr><th>Tranche</th><th># of options</th><th>Hurdle Price</th></tr>
<tr><td>1</td><td>591,200</td><td>1.00</td></tr>
<tr><td>2</td><td>591,200</td><td>1.25</td></tr>
<tr><td>3</td><td>1,182,400</td><td>1.50</td></tr>
<tr><td>4</td><td>591,200</td><td>1.75</td></tr>
</table>
</td></tr>
<tr><td>Exercise conditions and Vesting Date</td><td>The options vest on the later of:
(a) 25 June 2011; and
(b) for each tranche of options, as follows:
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) was satisfied;
B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) was satisfied;
C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) was satisfied;
D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) is satisfied; and
E. in respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) is satisfied.</td><td>The options will vest on the later of:
(a) 20 December 2012; and
(b) for each tranche of options, as follows:
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 $1.00) is satisfied;
B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $1.25) is satisfied;
C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $1.50) is satisfied; and
D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $1.75) is satisfied.</td></tr>
<tr><td>Exercise price</td><td>$0.4927 per option</td><td>$0.6938 per option</td></tr>
<tr><td>Expiry date</td><td>25 June 2013, subject to the following, in the event that:
(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.
(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.
(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.</td><td>The options will expire on:
(a) 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 an associated body corporate of the Company; or
(b) the eligible employee ceasing to be employed by the Company or an associated body corporate of the Company due to fraud or dishonesty; or
(c) 20 December 2013.</td></tr>
</table>

31 Share-based payments continued

(b) Executive Share Option Plan continued

	EXEC2 options	EXEC3 options
Share price at grant date	$0.48	$0.72
Expected price volatility	55.6%	50.0%
Expected dividend yield	9%	8.29%
Risk-free interest rate	6.64%	5.198%

The expected price volatility is usually based on the historic volatility (for 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 2 options	Exec 3 options
1	$0.1530	$0.1522
2	$0.1520	$0.1522
3	$0.1510	$0.1522
4	$0.1480	$0.1522
5	$0.1460	$0.1522

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 – 2012								
1 March 2011	As stated above	$0.69	2,956,000	–	–	–	2,956,000	–
31 October 2008	As stated above	$0.49	2,000,000	–	1,200,000	–	800,000	800,000
18 July 2008	As stated above	$0.49	1,275,000	–	165,000	185,000	925,000	430,000
Total			**6,231,000**	**–**	**1,365,000**	**185,000**	**4,681,000**	**1,230,000**

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 – 2011								
1 March 2011	As stated above	$0.69	–	2,956,000	–	–	2,956,000	–
31 October 2008	As stated above	$0.49	2,000,000	–	–	–	2,000,000	1,200,000
18 July 2008	As stated above	$0.49	1,275,000	–	–	–	1,275,000	765,000
12 March 2007	As stated above	$1.03	2,000,000	–	–	2,000,000	–	–
15 June 2007	As stated above	$1.03	1,037,500	–	–	1,037,500	–	–
Total			**6,312,500**	**2,956,000**	**–**	**3,037,500**	**6,231,000**	**1,965,000**

31 Share-based payments continued

(b) Executive Share Option Plan continued

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 the EXEC3 options and a combination of Bermudan and Barrier – style option pricing model in relation to the MD/CEO options and the 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.

32 Events occurring after the reporting period

(a) Dividend

A fully franked final dividend of 3.2 cents, totalling $3.5 million, has been declared, payable on 19th October, 2012. No provision has been raised in these accounts.

33 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
Profit for the year	12,682	10,117
Depreciation, amortisation and impairment	3,762	2,902
Fair value losses on other financial assets	37,344	33,073
Non-cash employee benefits expense share-based payments	151	221
Provision for doubtful debts	2	(57)
Assets written off	141	42
Other non-cash expenses	422	433
Borrowing costs	1,623	1,410
Interest paid	4,555	4,234
Change in operating assets and liabilities		
(Increase) in trade debtors and bills of exchange	(936)	(1,198)
(Increase) decrease in sundry debtors	(332)	(641)
(Increase) decrease in other non-current assets	(1,712)	(1,185)
Increase (decrease) in trade creditors	1,031	18
Increase (decrease) in sundry creditors and accruals	1,271	2,679
Increase (decrease) in current tax liability	263	4,930
Increase (decrease) in deferred tax liabilities	(2,941)	(3,402)
Net cash inflow (outflow) from operating activities	57,326	53,576

34 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Company	
	30 June 2012 $'000	**30 June 2011 $'000**
Balance sheet		
Current assets	3,872	3,839
Non-current assets	161,363	175,630
Total assets	165,235	179,469
Current liabilities	17,481	(20,167)
Non-current liabilities	92,487	(90,896)
Total liabilities	109,968	(111,063)
Shareholders' equity		
Contributed equity	74,324	67,256
Reserves	1,421	1,271
Retained earnings	(20,478)	(121)
Capital and reserves attributable to owners of Collection House Limited	55,267	68,406
Profit or loss for the year	**13,873**	**449**
Total comprehensive income	**13,873**	**449**

(b) Guarantees entered into by the parent entity

The parent entity has entered into guarantees with certain of its subsidiaries as set out in note 26.

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 2011 or 30 June 2012. For information about guarantees given by the parent entity, please see above.

Directors' Declaration

30 June 2012

In the directors' opinion:

(a) the financial statements and notes set out on pages 44 to 102 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date,

(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.

David Liddy
Chairman

Brisbane
23 August 2012

Independent Auditor's Report

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 ("the company") and its controlled entities ("the consolidated entity"), which comprises the balance sheet as at 30 June 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company'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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

a) the financial report of Collection House Limited and its controlled entities 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 2012 and of its performance for the year ended on that date; and
    ii) complying with Australian Accounting Standards 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 included on pages 17 to 25 of the Directors' Report for the year ended 30 June 2012. 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.

Opinion

In our opinion the Remuneration Report of Collection House Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001.*

Lawler Hacketts

LAWLER HACKETTS AUDIT

Liam Murphy
Partner

Brisbane, 23 August 2012

Shareholder Information

The shareholder information set out below was applicable as at 23 August 2012.

A Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
	Ordinary shares	
	Holders	**Shares**
1–1,000	446	264,754
1,001–5,000	945	2,538,947
5,001–10,000	342	2,689,736
10,001–100,000	511	15,644,288
100,001 and over	85	87,028,872
Total	2,329	108,166,597

There were 217 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
1. Mr Dennis George Punches (D G Punches Revocable Account)	15,452,535	14.29
2. Trans Tasman Collections Investments Pty Limited	10,218,910	9.45
3. Ankla Pty Ltd	7,845,434	7.25
4. George Laurens (Qld) Pty Ltd (Pearce Family A/C)	6,987,925	6.46
5. HSBC Custody Nominees (Australia) Limited	5,118,532	4.73
6. Mr John Marshall Pearce & Mrs Sandra Anne Pearce (Collection House S/Fund A/C)	4,421,843	4.09
7. Mr Anthony Francis Coutts & Mrs Jennifer Elsie Coutts (Coutts Super Fund A/C)	4,391,379	4.06
8. Citicorp Nominees Pty Limited	4,234,047	3.91
9. Mr Dennis George Punches (D G Punches Revocable Account)	3,000,000	2.77
10. JP Morgan Nominees Australia Limited	1,467,356	1.36
11. Mr Anthony Robin Aveling	1,305,339	1.21
12. Mr William Walter Kagel	1,000,000	0.92
13. Mr Dennis George Punches (Grantor Ret Annuity No. 1 Account)	1,000,000	0.92
14. Garrett Smythe Limited	985,730	0.91
15. Mr Lev Mizikovsky and Mrs Emily Dorothy Mizikovsky (Superfun Superfund Account)	910,936	0.84
16. Sunstar Australia Pty Ltd	819,246	0.76
17. Mr Stephen Walker and Mrs Susan Walker (Walker Super Fund Account)	800,000	0.74
18. Mooloolaba Consulting Pty Ltd (Superfund Account)	780,900	0.72
19. Mr Frederick Benjamin Warmbrand (FB & LJ Warmbrand Super A/C)	765,645	0.71
20. Mr Fritz Lee Duda and Mrs Mary Lee Duda (FLD Interests UTD 111781 Account)	695,000	0.64
Total	72,200,757	66.75

Unquoted equity securities

Details of these options are set out at note 31 of the financial statements.

Grant date	Balance at 1 July 2011	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	–	1,200,000	–	800,000
EXECUTIVE OPTIONS*					
1 March 2011	2,956,000	–	–	–	2,956,000
18 July 2008	1,275,000	–	165,000	185,000	925,000

*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.

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 23 August 2012, 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.

There is a restriction of a relevant interest in the 3,000,000 shares held by Mr Dennis George Punches as Trustee for the DG Punches Revocable A/C (No. 2) under section 608(1)(c) of the Corporations Act.

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)	19,452,535	17.98
John Marshall Pearce and Sandra Anne Pearce/George Laurens (Qld) Pty Ltd (combined shareholdings)	11,895,190	10.99
Trans Tasman Collections Investments Pty Limited	10,218,910	9.45
Mr Lev Mizikovsky, Ankla Pty Ltd, Sunstar Australia Pty Ltd and Ripeland Pty Ltd (combined shareholdings)	9,628,246	8.90

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.

Corporate Directory
30 June 2012

Contact

Matthew Thomas
Chief Executive Officer

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Email: matthew.thomas@collectionhouse.com.au

Investor and Client Presentation available at:

www.collectionhouse.com.au

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Fortitude Valley BC QLD 4006

Principal registered office in Australia

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Brisbane Qld 4000

Share register

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GPO Box 2975
Melbourne VIC 3000

Telephone: 1300 850 505
Facsimile: +61 7 3237 2152

www.computershare.com.au

Auditor

Lawler Hacketts Audit
Level 3, 549 Queen Street
Brisbane Qld 4000

Stock exchange listings

Collection House Limited shares are listed on the Australian Securities Exchange (ASX). The home exchange is Brisbane.

ASX Code:

CLH

20 YEARS 1992 - 2012

Collection House Limited

Leading the way