# Resolve.

COLLECTION HOUSE | Annual Report 2013

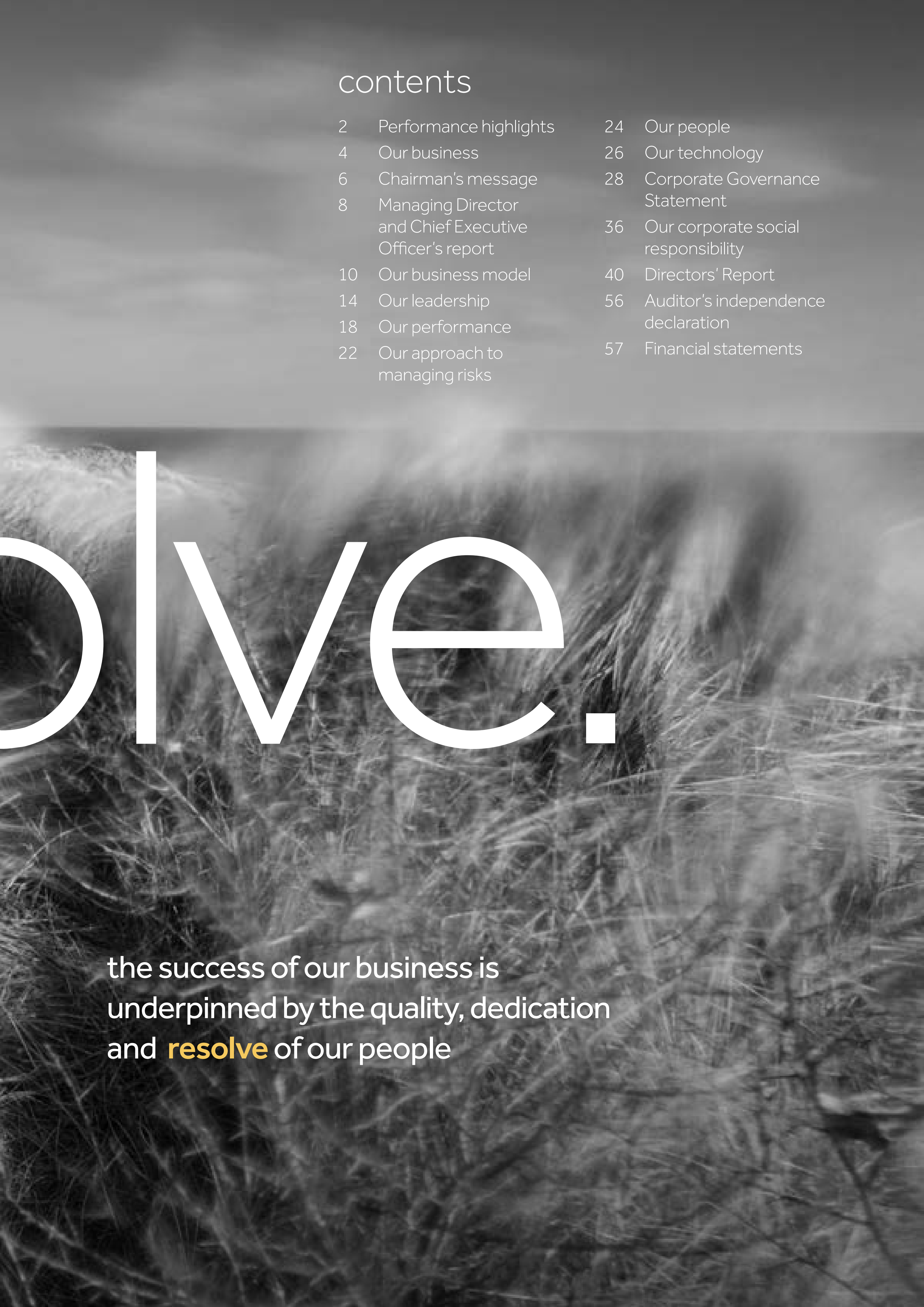
**Collection House Limited**
is Australia's leading receivables manager. With over 730 staff, our core business is providing receivables management, debt collection, debt ledger purchasing and legal services to support collection activities. We are listed on the Australian Securities Exchange and operate throughout Australia, New Zealand, and The Philippines.

# Reso

we **resolve** to find the right answers and resolutions for our clients and customers

our **resolve** is to build strong brand protection and affinity for our stakeholders by maintaining the highest ethical standards contents

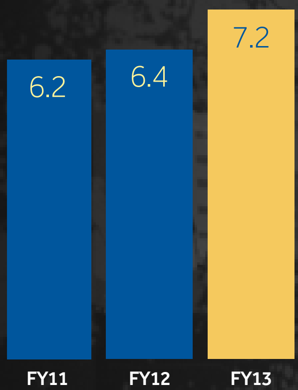





the success of our business is underpinned by the quality, dedication and **resolve** of our people

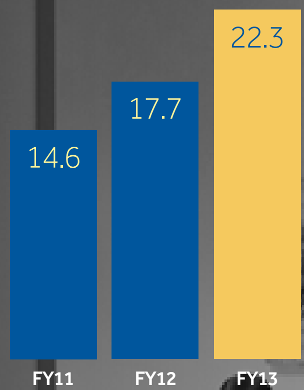
# PERFORMANCE HIGHLIGHTS

Dividends per share
(Cents)



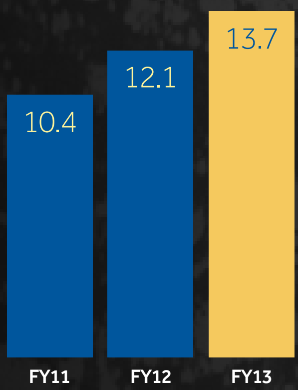

**13%**
increase in dividends per share.

Profit before tax
($M)



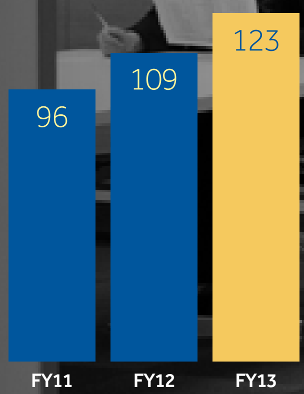

**26%**
increase in profit before tax.

Earnings per share
(Cents)



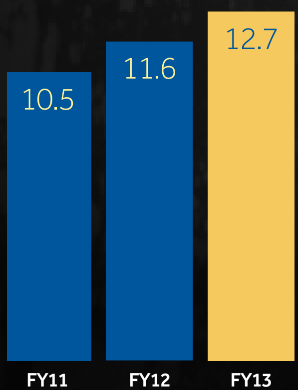

**14%**
increase in earnings per share.

Shareholder equity
($M)



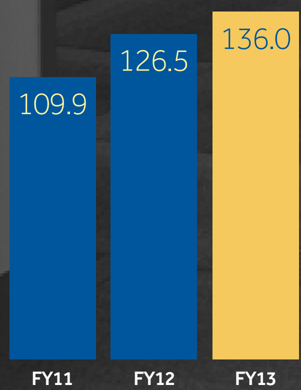

**13%**
increase in shareholder equity.

Return on Equity
(%)



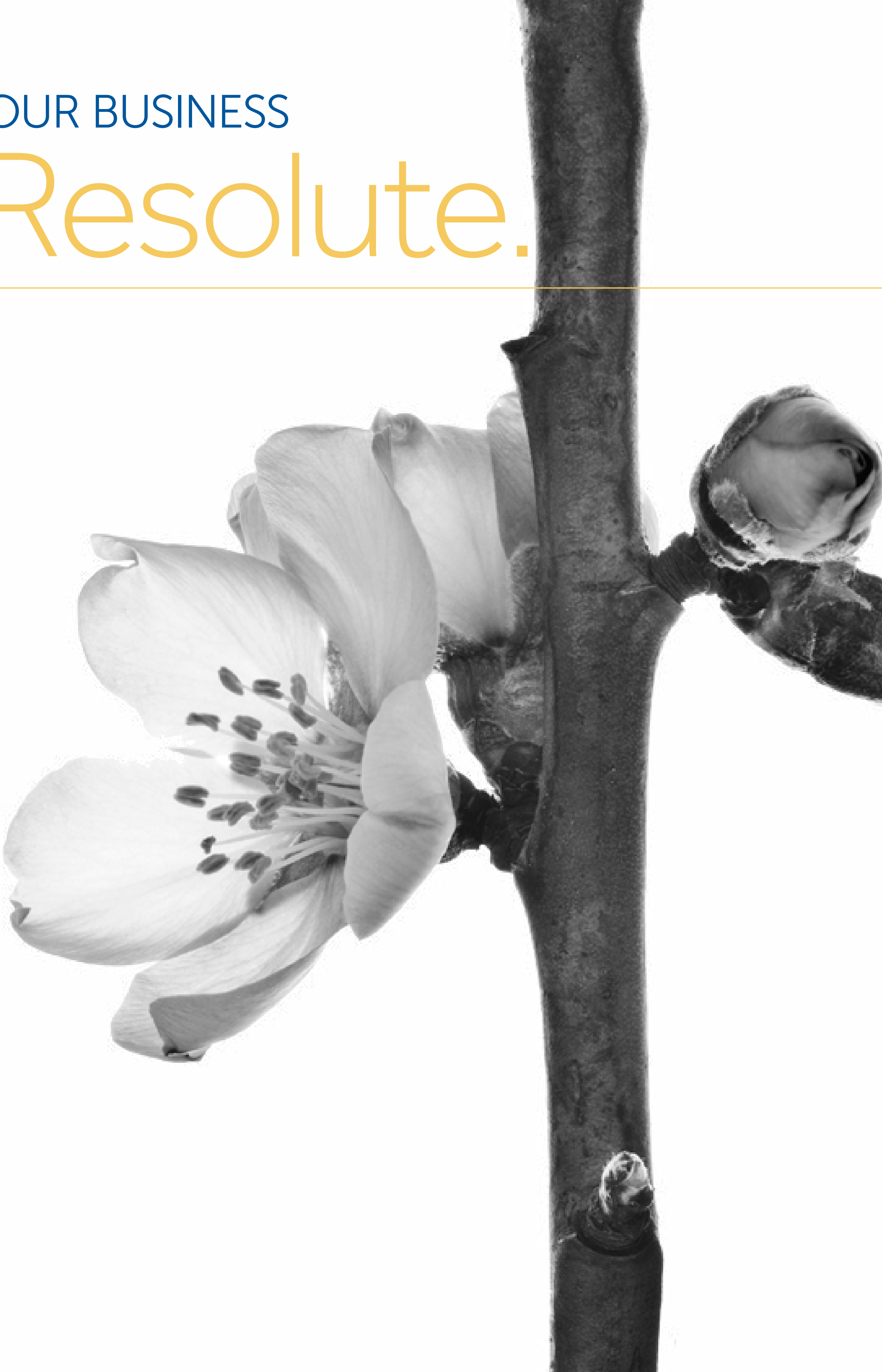

**1.1%**
increase in return on equity.

PDL Collections and Commission
($M)




**8%**
increase in PDL collections and commission.

# OUR BUSINESS
# Resolute.



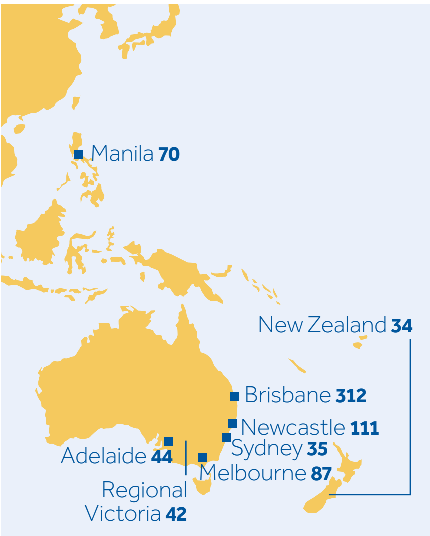
**Collection House Limited is Australasia's largest professional services group delivering receivables management services. Our core business is providing receivables management, debt collection, debt ledger purchasing and related legal services.**

Our ongoing success is a result of our commitment to leading the way in ethical debt recovery, our disciplined approach to business and strategy and our focus on creating value.

We employ more than 730 staff in ten offices throughout Australia, New Zealand and The Philippines. Our ongoing success is a result of our commitment to leading the way in ethical debt recovery, our disciplined approach to business and strategy and our focus on creating value. Our people underpin this success. Through our innovative in-house training and development programs, our people are one of our key assets and differentiators.

We enjoy strong business relationships with major Australian and international banks, financial institutions, insurance houses, large corporations, public utilities and governments. We protect our clients' brands by maintaining the highest ethical standards and a strong culture of compliance with the laws and regulations governing our business.

## Staff by location




Above: Represents numbers of individual staff by location and includes permanent, part-time, and casual staff.

## OUR VISION

To be the first choice for customers and clients seeking quality financial solutions.

## OUR GOALS

- To maintain strong relationships with key organisations in selected market segments.
- To be proven by our clients as the agency of choice in terms of delivering value and outstanding results.
- To be regarded by regulators and consumer representatives as leading the way in ethical practice.
- To be viewed by our staff as a first class working environment built on values of accountability, respect, clear communication, teamwork, professionalism and innovation.
- To achieve superior risk adjusted shareholder returns.

# CHAIRMAN'S MESSAGE

"Collection House is contemporary, dynamic and leading edge – shifting the paradigm from only offering debt collection services to becoming a diverse financial services group that delivers shareholder value while achieving superior outcomes for our clients and beneficial solutions for our customers. This is our Resolve!"

Dear fellow Shareholder,

Collection House has an impressive track record of generating sustained growth and shareholder value through challenging market conditions, and I'm pleased to report that the 2013 financial year was no exception.

Collection House achieved a Net Profit After Tax (NPAT) of A$15.6 million, a 23% increase over the 2012 financial year, and our sixth successive year of improved profit and shareholder value.

During the year, we delivered on our commitments to improve the key performance metrics of the business. These included:

- Return on Equity – improved from 11.6% to 12.7%
- Gearing Ratio (Net Debt/Net Debt + Equity) – reduced from 45% to 41%
- EBIT Margin – improved from 27% to 29%
- Earnings Per Share – improved by 14% to 13.7 cents

Collection House will pay shareholders a final fully franked dividend of 3.6 cents per share, in addition to the interim dividend of 3.6 cents per share. This brings the full year dividend to 7.2 cents, an increase of 13% on the previous year, also reflecting a 52.4% payout ratio.

This result would not have been possible without the efforts and support of the Collection House team across Australia, New Zealand and The Philippines. I firmly hold the view that financial services is a 'people' business, and the success of our organisation into the future will be underpinned by the success of our people. On behalf of the Board, I would like to thank the entire Collection House team for their dedication and commitment to our goals, and acknowledge the strong leadership of our senior management team led by MD & CEO Matt Thomas.

In last year's annual report to shareholders, we posed the question: "Why Collection House?" This year we answered emphatically with: "Resolve".

Our resolve, for all our stakeholders, is to continue to strive for:

- Strong sustainable growth through improved technology, productivity and operational efficiencies
- Effective implementation of our strategic plan and business model that offers investors predictable cash flow profiles
- Diversification of our product and service offerings
- Optimisation of our capital management to invest in sound business opportunities
- Delivery of improved shareholder value

We will continue to invest in asset management opportunities and we remain confident that these initiatives will continue to strengthen our growth prospects into the future. We will also continue to selectively invest in quality debt ledger acquisitions, when appropriate opportunities arise.

The outlook for the local Australian economy, where the majority of our business is currently generated, is somewhat sombre – however, the Reserve Bank of Australia has demonstrated its ongoing commitment to stimulate economic growth through their monetary policy actions. Regardless, the diversified and counter-cyclical nature of our business means we are confident of our growth prospects going forward, from both a business and a shareholder perspective.

The support and commitment of our shareholders will ensure that Collection House can continue to consistently grow and deliver solid performance in the years ahead.

On behalf of the Directors, we thank our shareholders for your support. We look forward to sharing future successes with you.

I wish to pay special tribute to Mr John Pearce, who recently retired from the Board. John, who was the co-founder of Collection House made an outstanding contribution to the success of Collection House for more than 21 years, from its inception in 1992, through its float as a listed Public Company in 2000 to its successful market position today, as a diverse receivables management and financial services provider to business.

John was the foundation of our Company over a very long period and Collection House's success stems largely from his extraordinary experience and knowledge of our industry, both domestically and internationally, and his endless drive to see our Company grow. John's passion and commitment to Collection House and its staff have been outstanding and his presence will be greatly missed. The Board wishes John well in his retirement.

David Liddy
**Chairman**

# MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

"These results continue to drive our vision for Collection House to be regarded as a provider of first choice for clients and customers seeking quality financial solutions."

Since FY10, our pre-tax profit has increased by almost 90%, including 26% in FY13. This result has been delivered while maintaining a key focus on medium and long-term growth of the business, as I outlined in last year's report. The focus has paid off again.

A clear strategy and an emphasis on building a positive organisational culture remains the key to our ability to consistently deliver 20% plus growth year-on-year, at a time when many other businesses and sectors are struggling to deliver positive growth.

FY13 saw us deal with the challenge of maintaining earnings growth while achieving a reduction in our gearing levels. This strategy is one the business adopted to increase balance sheet strength and hence our flexibility to take advantage of investment opportunities in the future.

In this regard we have succeeded, with gearing reduced by a factor of almost 10% (Net Debt/Net Debt plus Equity reduced from 45% to 41%), while profitability grew again by more than 20%.

While investing less in new Purchased Debt Ledgers, we continued to focus on extracting maximum financial value from existing assets, with recoveries from debts acquired over three years ago making up more than a third of PDL recoveries, which was a new record. Recoveries from debts over two years were greater than half of all PDL recoveries.

Achieving these results was assisted by previous "future focused" strategies (building a larger Arrangement portfolio, investing in operationalising analytics and investing in additional experienced management appointments). The success of these strategies now enable us to plan further long-term growth. In particular, the strengthened balance sheet allows us to again increase PDL investment and execute a step change in the scale of the PDL business.

Other investments made during prior years that are expected to enhance bottom line results in FY14 are the improving capabilities of our Manila based operations, and the expanded implementation of the proprietary "C5" collection platform.

## HIGHLIGHTS

During the period Net Profit After Tax (NPAT) increased 23% to $15.6m, and we were pleased to achieve good progress regarding the improvement of other key ratios including Return on Equity (from 11.6% to 12.7%), Gearing (reduced from 45% to 41%) and EBIT Margin (from 27% to 29%). Results were broad based with all segments making a positive profit contribution.

By choosing to reduce PDL investment by 15% compared to FY12, we were able to generate free cash of $9.3m during the year and still deliver the positive results above.

Further enabling future growth, we achieved the goal of fully staffing our Manila office and completing the February 2013 acquisition of "CreditCollect" in Traralgon, Victoria. This business was subsequently merged with Midstate Credit Management Services to form "Midstate CreditCollect Pty Ltd", which was recently converted into an incorporated legal practice.

I was also very pleased to see the progress under our 'Community Engagement Program' involving our collaborative work with financial counsellors and consumer advocates at a grass roots level, through to peak body level. Significant positive changes are now being seen, not only in our enhanced reputation as the industry leader in ethical and compliant receivables management, but also in dramatic reductions in the number of formal complaints registered with external dispute resolution schemes – being down some 80% over the year. We anticipate related cost reductions in the year ahead, in line with this trend.

## OUTLOOK

As we put our sixth year of consecutive profit growth behind us, we are again confident of maintaining that growth in the year ahead – although as always, not in precisely the same way as we have in the past.

We will continue to retain winning strategies, but always with a willingness to adapt and embrace new thinking, and change the emphasis of our focus and effort as necessary.

We expect to achieve organic growth within our operating segments, and have started FY14 with new contracts both in Collection Services and the PDL businesses. At the same time, we have invested a good proportion of our planning focus on the 2015/2016 period as we continue to pursue our vision of becoming a more diversified financial services group, and one regarded as the provider of first choice for clients and consumers seeking quality financial solutions.

Our vision seems ever-closer to being realised, thanks to the deep resolve, passion and tenacity of the people who, collectively, I call "Collection House".

Matthew Thomas
**Managing Director and**
**Chief Executive Officer**

## OUR BUSINESS MODEL

# Resilient.

**We offer our customers six core services through a 'one stop shop' approach to receivables management solutions.**

Our diverse service offering also grants us considerable advantages as a company.

## PURCHASED DEBT

Lion Finance Pty Ltd, Collection House's dedicated purchased debt subsidiary, purchases delinquent credit facilities from credit providers at a discounted price. This often takes the form of purchasing "debt ledgers", which are a collection of outstanding debt accounts that are offered for sale by a credit provider instead of continuing their efforts to recover the debt. We then assume the continuing obligations and benefits of the original credit provider in managing the collection of the accounts. Through our unique approach, we can achieve a collection outcome that is superior to our debt purchase cost.

Our debt purchases focus predominantly on banking and finance (personal, motor finance, fixed loans and credit cards), telecommunications (fixed line, mobile) and utilities (electricity, gas) sectors.

Lion Finance provides these services across Australia and New Zealand.

## COLLECTION SERVICES

Collection House provides debt collection services on default accounts referred to us by credit providers. We receive a commission fee for the successful collection on each referred account.

Our collection services are based on long-standing partnerships with leading brand clients in the Australasian financial services, insurance, public utility, credit and government enterprise markets.

As an outcome of these partnerships, we have a strong presence in a range of industries including:

- **Banking and Finance** – banking and finance products, credit and charge cards, and loans
- **Corporate** – telecommunications, essential services and international debts
- **Government** – federal, state and local government authorities
- **Insurance** – motor vehicle, general insurance, rental default and malicious damage, overpayment of wages, public liability and marine
- **Utilities** – electricity and water supply services.

This service is provided in Australia by Collection House and its regionally based subsidiary, Midstate CreditCollect Pty Ltd. The service is also provided in New Zealand by Collection House NZ Limited.

## RECEIVABLES MANAGEMENT

Collection House offers credit providers an outsourced receivables management facility. In these circumstances, we provide a service on behalf of our clients to assist their customers maintain their credit facility (eg. credit card, personal loan, motor finance, etc) in accordance with its terms and conditions.

Our trained staff and uncompromising service culture means we provide our clients with a service that is cost effective and protects their relationship with the customer.

This service is provided in Australia by Collection House and in New Zealand by Collection House (NZ) Limited.

## LEGAL AND INSOLVENCY SERVICES

Jones King Lawyers Pty Ltd, a Collection House subsidiary and Incorporated Legal Practice, provides customers with specialised legal advice in debt recovery and insolvency matters including debt collection, mortgage enforcement, rates recoveries and a range of other related areas. We provide services for clients ranging from high-volume case requirements to more bespoke specialised legal and insolvency services.

This service is provided across Australia with offices strategically located in Sydney, Melbourne and Brisbane.

## CREDIT MANAGEMENT TRAINING

Collective Learning and Development Pty Ltd, a Collection House subsidiary and Registered Training Organisation, provides development and training services for the employees of clients working in the collection industry. Offering both nationally recognised accredited training and mercantile (non accredited) courses, we use experienced trainers with personal collection and customer service experience to provide practical training relevant to the contemporary needs of the collection industry.

This service is provided in Australia and New Zealand with key management located in our Brisbane office.

# OUR BUSINESS MODEL (CONTINUED)

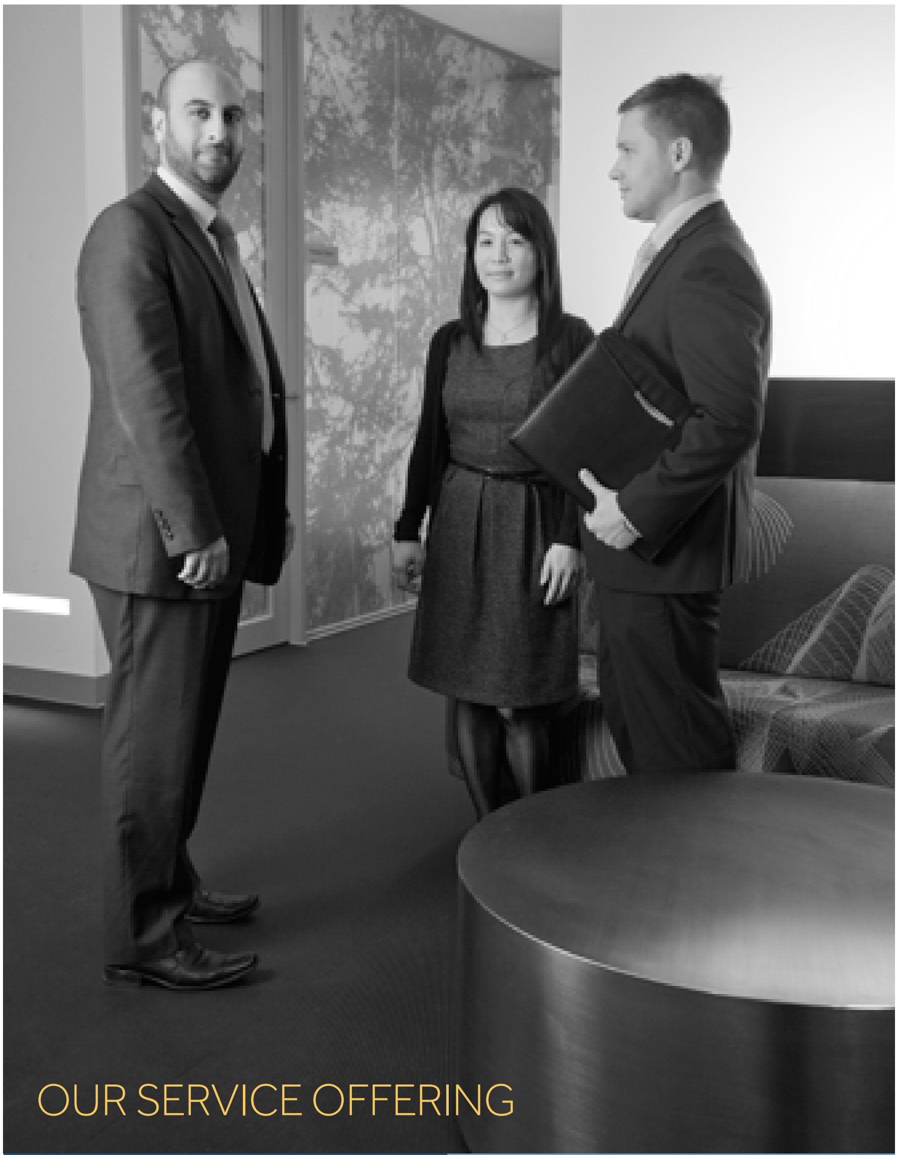
## CREDIT CONSULTING AND ASSESSMENT

Cashflow Accelerator Pty Ltd, a Collection House subsidiary, provides consultancy services to small and medium enterprises on how to improve their credit management efficiencies, accounts receivable operations and cash flow. These improvements are achieved through increasing credit quality in future credit sales, increasing cash collected on debtor ledgers, and ensuring terms and conditions stimulate sales growth without any increase in credit risk.

This service is provided across Australia and New Zealand.

Our diverse service offering also grants us considerable advantages as a company, including:

- **Resilience** – with operations in both the purchased debt and collection services sectors, the Company is well positioned to take advantage of shifts between the two markets, leveraging our strengths in one market if the other weakens.
- **Diversity** – access to multiple revenue streams from a diverse service offering reduces our dependency on the performance of any single product and/or market segment.
- **Synergy** – the interplay between our services generates internal efficiencies and minimises the need for external services to support our core business.
- **Insight** – at times, the accounts provided for sale as purchased debt have previously been provided to Collection House through its collection services function. This provides us with a unique understanding of the value of those accounts and facilitates informed purchasing decisions.



# OUR SERVICE OFFERING

## Receivables Management

We offer a receivables management service for our clients to assist their customers maintain their credit facility.

## Collection Services

We provide debt collection services on referred default accounts, receiving a commission fee for each successful collection undertaken.

## Credit Management Training

We deliver development and training services for people working in the collection industry.

customers and clients

## Credit Consulting and Assessment

We assist small and medium enterprises improve their credit management efficiencies, accounts receivable operations and cash flow.

## Legal and Insolvency Services

We provide specialised legal advice in debt recovery and insolvency matters.

## Purchased Debt

We purchase delinquent credit facilities from providers and assume the obligations and benefits of the debt. We then collect on the account to generate a result superior to our debt collection cost.

OUR LEADERSHIP

# Respected.

**Collection House is led by an experienced, professional and stable board of directors and executive team, lending considerable strength and continuity to the Company.**

## OUR BOARD

Collection House's board of directors has a significant history with the Company and broad experience in the financial services sector. Drawing on this range of national and international experience, the Board is well placed to oversee the next phase of the Company's growth strategy.

### 1. David Liddy

**Independent, Non-executive Chairman**

Appointed to the Board and as Chairman of Collection House Limited in March 2012, Mr David Liddy is a well known business leader, with an executive career covering 40 years in banking, most recently as Managing Director and Chief Executive Officer of the S&P/ASX 100 company Bank of Queensland Limited (BOQ) prior to his retirement in August 2011. Prior to joining BOQ, Mr Liddy spent 33 years at Westpac Banking Corporation.

Mr Liddy brings to Collection House not only a wealth of knowledge and experience but also new ideas and contacts which will help drive Collection House to the next level of market maturity.

Mr Liddy is also Chairman of Financial Basics Foundation and Financial Basics Community Foundation, a Non-executive Director of Emerchants Limited, a Non-executive Director of Steadfast Group Limited, a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors.

### 2. Dennis Punches

**Non-executive Deputy Chairman**

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. He is Co-Chairman of the International Collectors Group and a Trustee for Wisconsin's Carroll College.

### 3. Matthew Thomas

**Managing Director and Chief Executive Officer**

Matthew Thomas was appointed to the Board in March 2013. Mr Thomas has more than 22 years' experience in the finance and collections industry and has been with Collection House for 14 years. Since starting with Collection House as a Customer Service Officer in 1999, Mr Thomas has worked in a range of positions including IT Manager and Chief Information Officer. In 2007, Mr Thomas was promoted to Chief Operating Officer, a role encompassing all collection operations, as well as Group IT strategy and business analysis. Mr Thomas was appointed to Chief Executive Officer in July 2010.

In his 18 years in senior management, Mr Thomas has gained experience in a broad range of industries including banking and finance, insurance, telecommunications, and small business, as well as statutory recoveries such as Workers' Compensation premiums.

# OUR LEADERSHIP (CONTINUED)


## 4. John Pearce

**Non-executive Director**

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. Mr Pearce stepped down as Chairman of Collection House Limited on 27 March 2012. 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.

## 5. Tony Coutts

**Independent, Non-executive Director**

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. 18 years in the finance and insurance industry (Australian Guarantee Corporation Ltd). 18 years in the debt collection industry at Collection House.

## 6. Kerry Daly

**Independent, Non-executive Director**

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.

## 7. David Gray

**Independent, Non-executive Director**

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), 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.


## OUR EXECUTIVE TEAM

The six members of the Collection House executive team have more than 60 years' of cumulative experience within the Company and its operations. This knowledge and stability underpins the continued success of the Company. The Collection House executive team is uniquely positioned to understand the long-term trends affecting the Company and its markets, as well as the drivers of success. The team is focused on delivering sustained growth over time while remaining receptive to new ideas and the continued pursuit of innovation.

### 1. Matthew Thomas

Managing Director and
Chief Executive Officer

Starting with Collection House as a Customer Service Officer in 1999, Matthew Thomas progressed through a range of managerial and executive roles in the Company before becoming Chief Executive Officer in 2010. His appointment as Managing Director in 2013 affirms his long-term vision for the Company as a supplier of first choice for quality financial solutions.
**Years with Collection House: 14+**

### 2. Paul Freer

Chief Operating Officer

Paul Freer joined Collection House in March 2013 to lead the Company's domestic and international operations with a focus on revenue growth, people leadership and operational performance. Paul has considerable leadership and management experience from across the financial services industry having worked in Africa, Asia, Europe, the Middle East and the United States for leading global and multinational banks and financial services organisations.

### 3. Michael Watkins

General Counsel and
Company Secretary

Michael Watkins leads the governance and legal functions underpinning the integrity and reputation of Collection House. Michael is focused on ensuring the Company's continued sustainability and resilience and that it remained responsive to changes in the regulatory environment. His key priorities include further strengthening risk and compliance management in the Company and building strong relationships with regulators.
**Years with Collection House: 13+**

### 4. Adrian Ralston

Chief Financial Officer

Adrian Ralston is responsible for the overall financial management of Collection House. Applying his ten years of experience with the Company, Adrian focuses on building shareholder value through an emphasis on long range planning and strategy. He is engaged in all aspects of financial management, mergers and acquisitions, process management and investor relations.
**Years with Collection House: 10+**

### 5. Kylie Lynam

General Manager
Human Resources and
Corporate Services

Kylie Lynam is responsible for driving the Company's people strategy, ensuring the right capability and culture to enable strong business performance. Kylie leads the compliance, strategic projects, corporate services and training support areas to achieve key corporate objectives. She is also responsible for workforce optimisation and continuous improvement initiatives.
**Years with Collection House: 13+**

### 6. Marcus Barron

Chief Information Officer

Marcus Barron joined the executive team in 2013, building on his ten year career in the Company. Applying his extensive experience in the operational and technological divisions of Collection House, Marcus is committed to delivering information technology that demonstrably supports corporate strategy and staff productivity.
**Years with Collection House: 10+**

OUR PERFORMANCE

# Reliable.

## LION FINANCE

Joel Archer
Head of Lion Finance

Lion Finance Pty Ltd is the largest subsidiary of Collection House Limited, with over 300 people in Brisbane, Melbourne, Adelaide, Newcastle, Auckland and Manila. Focusing on the collection of Purchased Debt Ledgers, Lion Finance had more than 250,000 active debts in its ledger with a face value of $1.43 billion at the conclusion of 2012–13.

The challenge for Lion Finance in 2012–13 was to continue to achieve growth in revenue while reducing the overall level of new purchased debt ledgers consistent with the Company's strategy to reduce leverage. This result was pursued through productivity-led workforce investment initiatives that improved engagement, output quality and the professional development of Lion Finance staff.

Some of Lion Finance's key achievements during 2012–13 included:

- Our leadership structure was realigned to meet the needs of our people. Our frontline managers assumed greater responsibility for coaching, support and development, while campaign strategy and portfolio management was delegated to a new group of specialists.
- Our Performance and Quality Assurance processes were refined to facilitate quicker resolutions with customers.
- Career development planning was embedded for all staff and enabled through training, up-skilling and cross-skilling.
- Additional investment into our collection strategy through analytics ensured consistent results and best practice.
- The implementation of a Customer Online Portal provided customers with an on-line service and self help tool, enhancing the range of services customers are able to access.

### Looking Forward

Lion Finance will:

- Roll out our new proprietary systems across all staff and locations to deliver improved workflow management, productivity and client profiling capabilities.
- Continue to utilise and further develop its business analytics capabilities to provide enriched data and drive more effective customer engagement strategies.

## COLLECTION SERVICES

Jason Cowan
Head of Collection Services

Collection Services is a division of Collection House Limited providing account receivables management solutions that includes assisting clients in preventing overdue debts from becoming long-term debts, as well as providing commission-based collection services to some of Australia's leading companies. Our clients comprise a broad cross-section of Australian industry covering banking, insurance, utilities, telecommunications and asset finance.

Credit providers continue to proactively manage collections earlier in the delinquency cycle through increased debts sales and ongoing forward flow agreements. To manage this dynamic, Collection Services has focused on collection effectiveness, productivity and pipeline management to support revenue growth and margin levels.

In 2012–13, our Collection Services business continued to grow, exceeding revenue expectations and maintaining margins. Some of the key achievements underpinning this strong performance included:

- Realigning our leadership structure to meet our clients' needs, including the appointment of dedicated collection strategy leaders.
- Further enhancing the capabilities of our Manila-based operations, driving improved results.
- Continued investment in collection strategy analytics to provide further insight into portfolio performance and productivity.
- Securing new strategic clients in addition to obtaining new product referrals from existing clients, creating a solid foundation for continued revenue growth in line with 2014 objectives.

# OUR PERFORMANCE (CONTINUED)

## Looking Forward

Collection Services will:

- Continue to roll-out our new proprietary system while enhancing its capability as it is implemented across different industry and sector teams that each have unique requirements.
- Continue to refine our collections operations to improve service and recovery performance through the use of our proprietary business intelligence products.

## JONES KING

Kirsten Ryan
National Manager

Jones King Lawyers Pty Ltd (JKL) is a wholly owned subsidiary of Collection House and an Incorporated Legal Practice co-located with Collection House in Queensland, New South Wales and Victoria.

JKL offers bespoke debt recovery, litigation and insolvency solutions and services all major debt recovery areas including banking and finance, insurance, Government, workers' compensation, utilities, personal insolvency (bankruptcy), corporate insolvency (winding up) and insolvency management (Part IX and Part X administrations). JKL also has a dedicated conveyancing team, allowing it to provide an additional service to its clients. In addition to its own external client base, JKL provides specialist legal services to Collection House and its clients.

JKL has a proven track record of delivering timely, relevant and reliable legal advice. The firm is focused on providing a wide range of cost effective debt recovery solutions for its diverse and long-standing client base. It achieves this by invoking economies of scale and providing specialisations to demonstrate and promote its points of difference.

These results are achieved through our highly trained and motivated lawyers and paralegals, our leading edge automated technology systems and our well managed legal processes and methodology.

Highlights for the 2013 financial year included:

- Expanding our client base in conjunction with Collection House in Queensland by winning new work with a number of local government authorities.
- Managing approximately 47,000 insolvency administrations representing personal insolvent debts totaling more than $308 million.
- Increasing the number of solicitors in the growth markets of Sydney and Brisbane which, in turn, led to a promising increase in external client revenue, particularly in Brisbane.

## Looking Forward

Jones King Lawyers will:

- Continue to expand its third party client base and look to work with more local government authorities.
- Enhance its legal practice management system to maintain our competitive advantages in technology and systems.

## MIDSTATE CREDITCOLLECT

Mark Answerth
Managing Director

In February 2013, Midstate Credit Management Services Pty Ltd acquired CreditCollect, a highly successful commercial agency. This acquisition expanded the range of credit management and debt collection services available to our nation wide client base. The merged business has re-branded as Midstate CreditCollect Pty Ltd.

The acquisition resulted in a broadening of professional service offerings and a doubling of staff numbers guided by an experienced and energised management team. A new IT collection platform is being launched to standardise processes and increase productivity, while improving services to our client base. In addition to focusing on current clients, a sales structure has been put in place to ensure ongoing growth.

Midstate CreditCollect has a unique structure and service offerings, with many of its strengths difficult to replicate, including:

- More than 50% market share of local government and water authority collection work in Victoria.
- The largest regional network of any debt collection agency in Victoria.
- One of the most experienced management teams in the industry.
- A strong record of outstanding service delivery and collection results.
- Expertise in almost all industry sectors, including the public sector, telecommunications, utilities, commercial, publications, finance and education.

- A loyal, long serving workforce with a vast array of industry experience.
- The capacity to provide high volume debt recovery services to large institutions as well as case by case debt management services to medium and small organisations.

## Looking Forward

Midstate CreditCollect will:

- In July 2013, implement an Incorporated Legal Practice to enhance its professional services offerings for clients.
- Introduce a single business-wide collections platform that will generate significant synergies and efficiencies.

## COLLECTIVE LEARNING AND DEVELOPMENT

Kylie Lynam
Director

Collective Learning and Development Pty. Ltd (CLAD) is a Registered Training Organisation specialising in financial services courses with a focus on credit and receivables management. CLAD is part of the National Training Framework and delivers nationally recognised training under the Australian Traineeship Scheme.

CLAD provides staff development and training services to the collection industry and has demonstrated success in providing quality training for internal and external students for over five years.

Our services are distinguished by a team of experienced trainers qualified and experienced in debt collection and negotiation techniques, coupled with the backing of the Collection House group of companies.

Our team has an appreciation of the sensitivities attached to receivables management and ensures that our training emphasises the importance of acting ethically and with integrity while complying with legislation and regulatory requirements.

## Looking Forward

Collective Learning and Development will:

- Continue to revitalise its training and course materials to retain their market leadership and relevance.
- Build on existing client relationships from across the Collection House group of companies to seek out new opportunities to partner with new clients and organisations.

## CLH INTERNATIONAL

Steven Smith
Head of Central Operations

CLH International is Collection House's offshore operation based in the Philippines. Collection House proved the concept of this business in February 2011 and the Company has progressively developed its international presence with a view to establishing a sustainable operation characterised by strong results, quality outcomes, and a positive and professional work environment.

The performance and demonstrated capabilities of our operations supported the establishment of Collection House International BPO, Inc. in April 2012.

Bolstering our presence in the Philippines has allowed Collection House the opportunity to access economies of scale while enabling the Company to take advantage of emerging opportunities in the dynamic Asia Pacific region. It has also facilitated cost-effective services to Collection House support operations, while also offering clients a sustainable and financially viable offshore alternative for collection-related services.

Highlights for the 2012–13 financial year include:

- Leading the way by offering full 'end to end' collection services, including lead generation and voice collection calls.
- Further improving the existing high confidence and performance levels of staff.
- Supporting the capability of Lion Finance and Collection Services' operations.
- Providing services for insolvency activities, information technology services, and corporate support.

## Looking Forward

Collection House International will:

- Explore and evaluate the opportunities created by our international presence and skilled workforce.
- Continue to expand the range of products and services provided to Collection House and its clients for optimum performance.

# OUR APPROACH TO MANAGING RISKS

# Responsive.

The nine risks that Collection House addresses through its risk management program

1. Purchased-debt risk
2. Market risk
3. Operational risk
4. Compliance risk
5. Equity risk
6. Insurance risk
7. Liquidity risk
8. Reputation risk
9. Business risk

### Looking Back

- Recent changes to some of our operating policies and procedures have significantly reduced the risk associated with customer complaints and disputes.

### Looking Forward

- Collection House will form an Operational Risk Management Committee comprised of senior management across each of our business units. The purpose of this committee is to share best practice approaches to the key operational risks impacting our business activities.

## Collection House has a Risk Management Program that identifies, assesses and manages the internal and external risks that affect our business in accordance with a set of core risk management values.

Our capacity to achieve sustainable growth is closely linked to the resilience of our organisation.

Collection House recognises that proactive risk management is critical, particularly in volatile and uncertain times. Our capacity to achieve sustainable growth is closely linked to the resilience of our organisation, underpinned by a comprehensive and proactive program for the management of risks which may affect our business.

We distinguish four key types of risk that may impact on our business:

- **Purchased-debt risk** – the risk of financial loss where purchased debt fails to meet our financial expectations
- **Market risk** – the risk to earnings from changes in market factors, such as interest rates and equity prices
- **Operational risk** – the risk that arises from inadequate or failed internal processes, systems and people or from external events beyond our control, and
- **Compliance risk** – the risk of failing to comply with our obligations under the law, based on the letter and spirit of a range of regulatory standards expected of us, and the risk of failure to meet our ethical standards.

In addition to these risks, we also allocate resources to manage the following types of risks:

- **Equity risk** – the potential for financial loss arising from movements in the value of the purchased debt portfolio
- **Insurance risk** – the risk of not being adequately insured to mitigate risk or to meet insurance claims
- **Liquidity risk** – the risk of failing to adequately fund cash requirements in the short-term
- **Reputation risk** – the risk of negative experiences and perceptions impacting our standing with stakeholders, and
- **Business risk** – the risk associated with the vulnerability of a line of business to changes in the business environment.

The Company's program of responsive risk management practices is overseen by the Audit and Risk Management Committee and provides assurance that:

- processes are in place to identify risks
- material risks are being managed
- monitoring processes are in place to ensure no significant risks will be overlooked
- identified risks are prioritised, and
- monitoring and review processes are in place to ensure the effectiveness of the Risk Management Program.

# OUR PEOPLE

# Ready.

Composition of staff


**Note:** Figures include individual full-time, part-time, and casual staff.

## Looking Back

- Changes to our leadership model saw the restructuring of front line management roles to accommodate a greater focus on staff development and training.
- The formalisation of a Leadership Development Program provided identified staff with the opportunity to develop leadership and management skills through a structured program with accompanying learning opportunities.

## Looking Forward

- We will develop improved ways to capture and measure enhanced productivity through human capital management initiatives.
- The roll-out of a new Payroll and HR System will allow us to further streamline processes and generate efficiencies.
- The implementation of a new Learning Management System will allow us to effectively link our training courses with our competency framework.

**The success of Collection House is underpinned by the quality, dedication and resolve of our people. Expanding our workforce in a sustainable way, while driving capability and performance improvements, has assisted in positioning us for continued success.**

We reward employees based on their performance, potential and contribution to the success of the business.

## THE PROFILE OF OUR PEOPLE

As at 30 June 2013, our collection staff represented a cumulative total of 517 FTE, with 21% of these employees recording four or more years of service with the company. Our support staff totalled an equivalent of 79 FTE, representing 11% of total staff.

During the year, our staffing levels across the group increased 13% on the previous year, partly attributed to the acquisition of CreditCollect and continued expansion of our Manila operation.

## RETAINING TOP TALENT REMAINS A KEY PRIORITY

We remain committed to developing our people and recognise that to retain top talent, we must provide our staff with the opportunity to develop and build their careers.

2012–13 saw us continue the roll-out of our leadership development program, with an additional eight staff appointed to extend their management and leadership capabilities.

We introduced an internal Career Expo, which allowed staff an opportunity to learn about our different business areas and career opportunities. This will be an annual initiative as it is increasingly important to demonstrate that a number of career paths are available to our staff and that we are committed to assisting them grow and develop within the business.

## A DIVERSE AND INCLUSIVE WORKFORCE IS ESSENTIAL

During 2012–13, our Board endorsed a diversity program and we continue to progress this, ensuring that we have an inclusive and diverse workplace where individual differences – including ideas, opinions and backgrounds – are celebrated, valued and managed in a way that maximises our business performance.

We encourage the sharing of ideas through online discussion boards and other forums including staff workshops and focus groups.

We have also effectively implemented policies that create a more flexible working environment, with 23% of our workforce currently accessing flexible working arrangements.

## PERFORMANCE, REWARD AND RECOGNITION

We reward employees based on their performance, potential and contribution to the success of the business.

During the last twelve months there has been a strong emphasis on productivity and ensuring we utilise the right metrics with all reward and recognition programs.

We have dedicated compliance, training, performance and quality teams that work closely to review key strategies and the effectiveness of call outcomes, which is also closely aligned to ensuring optimum productivity and performance.

During the year we reviewed our established benefits program called "What's in it for me?", and introduced a "success bonus" which links individual contribution to company success. There are three key elements to the bonus including employee tenure, individual performance and company results.

# OUR TECHNOLOGY

# Resourceful.

## Looking Back

- There was a proactive investment in our business analytic capabilities.
- A three year technologies strategy was introduced.

## Looking Forward

- We will implement an enhanced client management system.
- Significant scale investment in business analytic capabilities will continue.
- The opportunities provided by cloud computing technologies will be evaluated.

## Collection House uses technology to drive performance and maintain a position as an industry leader. We do so through our philosophy of self-reliance in technology infrastructure and creating innovative proprietary systems.

We are implementing a three year technology focused strategy from 2012–13 to continue driving success.

We are implementing a three year technology focused strategy from 2012–13 to continue driving success. This strategy guides how we apply and invest in business intelligence and analytics, research and development, and new infrastructure to support and enable the broader Company strategy.

The accounts receivable sector is shifting from a process driven industry to one guided by the effective analysis and application of data to create efficiencies and results. Recognising this trend, the Company doubled its annual investment in Business Intelligence staff, technology and resources during 2012–13 and will double this investment again during 2013–14. This investment has already delivered increases to both overall revenues and revenue generated per account.

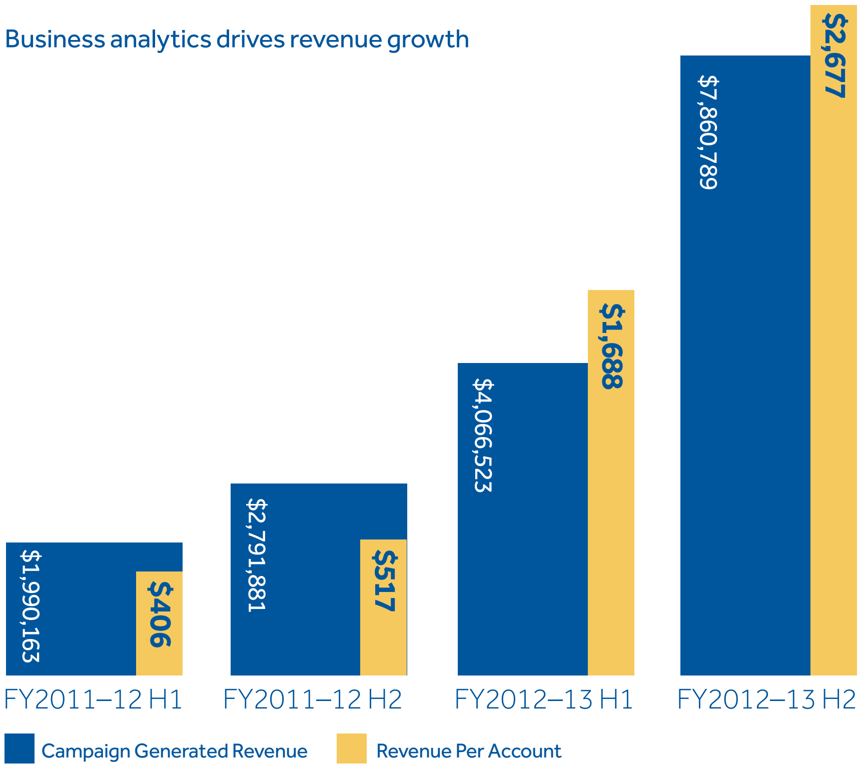
This sustained investment will ensure that collection activity is supported and informed by leading edge analytics that enhance the productivity of collection staff. This will be achieved through:

- the use of data to better understand our clients
- the design of sophisticated behavioural models that will maximise and focus our collection efforts on accounts with a greater likelihood of a positive resolution, and
- tailoring collection strategies to allow our staff to engage customers with the most appropriate negotiation and resolution approaches likely to generate success.

Our proprietary client management system, Controller 4.0, has delivered a sustained competitive advantage. Additional enhanced versions of the system (Controller 5.0) are scheduled for release during 2013–14, continuing to deliver improved functionality and significant intellectual property.

Controller 5 will deliver an industry leading blend of functionality, automated data integration and usability, representing a significant step change in our technological capabilities.

### Business analytics drives revenue growth




# CORPORATE GOVERNANCE STATEMENT

## Collection House Limited's Board and Management are committed to achieving and demonstrating the highest standard 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 2013. A summary of Collection House's corporate governance policies and procedures, organised in the same order as the Principles and Recommendations, is set out below.

Collection House's key policies, Board and Committee Charters and a checklist detailing its compliance with the Principles and Recommendations appear on the Company's website at www.collectionhouse.com.au.

### PRINCIPLE 1
### Lay solid foundations for management and oversight

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 Charter sets out a list of specific functions which are reserved for the Board.

Board appointments are made pursuant to formal terms of appointment.

The Board has delegated to the Managing Director and Chief Executive Officer (MD/CEO) and the Senior Executives 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.

The Board has established processes for evaluating the performance of its MD/CEO and Senior Executives. The individual performance of the MD/CEO and 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 contained in the Directors' Report of the Annual Report. Senior Executives were evaluated following the end of the financial year and in accordance with the processes described in the Remuneration Report.

***More information***

*The Board's responsibilities and functions are also contained in Collection House's corporate governance policies which are available at www.collectionhouse.com.au under the heading Investors – Corporate Governance.*

### PRINCIPLE 2
### Structure the Board to add value

#### Composition of the Board

The Board currently comprises seven Directors (including the Chairman), six of whom are Non-executive Directors. The Managing Director (Matthew Thomas), appointed on 6 March 2013, is an Executive Director.

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

The roles of Chair and MD/CEO are exercised by separate persons. David Liddy acts as Chairman and Matthew Thomas as MD/CEO.

#### Independence of Directors

The Collection House Board is currently comprised of seven Directors, four of whom are Independent Directors. Therefore, a majority of Directors are independent.

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.

In the context of director independence, "materiality" is considered from both the Company and individual Director perspectives. The determination of materiality requires consideration of both quantitative and qualitative elements. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to act in an independent manner.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors are considered independent Directors.

- David Liddy – Independent, Non-executive Chairman
- Tony Coutts – Independent, Non-executive Director
- Kerry Daly – Independent, Non-executive Director
- David Gray – Independent, Non-executive Director

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. At each Board meeting, the Board requires each Director to disclose any new information which could, or could reasonably be perceived to, impair the Director's independence.

In applying its policy on independence, the Board's emphasis is to encourage independent judgment amongst all Directors, at all times, irrespective of their background. Nonetheless, the Board, in its nominations role and capacity will assess annually the independence of each Director in light of the ASX Principles and Recommendations.

### Selection and appointment of new Directors

When considering the selection and appointment of a new Director, Collection House adheres to procedures (Nomination Charter) including, but not limited to:

- the qualifications, experience and skills appropriate for an appointee, having regard to those of the existing Board members and, likely changes to the Board in the foreseeable future;
- upon identifying a potential appointee, specific consideration is given to that candidate's:
  - 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 the Collection House Board extend to reviewing the Nomination Charter. The Board is responsible for implementing the Nomination Charter and developing succession plans to maintain appropriate experience, expertise and diversity on the Board.

The re-appointment procedures for incumbent Directors are outlined in Collection House's Constitution. In summary, subject to the specific matters described in the Constitution, an election of Directors must take place each year at which one third (excluding the Managing Director) 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.

### Induction

The induction provided to new Directors and Executives includes formal induction training and informal training through a series of meetings with incumbent Executives. This ensures that they have a full understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and Senior Executives, the role of the Board Committees and the Company's meeting arrangements.

### Evaluating performance of the Board, its Committees and its Directors

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.

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.

### 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 MD/CEO, the CFO, Company Executives, the Company Secretary and General Counsel. In addition, Directors may consult with, and request additional information from, any of 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 2013 |
|---|---|---|
| Audit and Risk Management Committee | Kerry Daly (Chair) | 6 |
| | Tony Coutts | |
| | David Gray | |
| Remuneration Committee | Tony Coutts (Chair) | Dissolved 21 February 2013 |
| | David Gray | 1 |
| | David Liddy | |

Each 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 Nomination Committee.

Taking into consideration the nature, size and 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 of the Nomination Committee; and
- the full Board will carry out the functions and duties of the Committee in accordance with the Nomination Charter.

In addition, as the Company is not an entity that trades in the top 300 of the S&P/ASX All Ordinaries Index, the Board resolved that:

- the role, responsibilities and functions of the Nomination 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 Nomination Committee's mandate effectively; and
- the efficiencies previously gained from having a Nomination Committee no longer exist.

***More information***

*A full copy of each of Collection House's 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, Officers and 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 and ethical standards
- expectations regarding professionalism, respect for the law, conflicts of interest, confidentiality, environment and good corporate values;
- 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 Board has 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 and Collection House's progress during the reporting year in achieving them.

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

| Measurable Objectives – 2012-2013 | Progress |
|---|---|
| • Introduce mentoring programs within 12 months | Achieved |
| • Introduce coaching programs within 12 months | Achieved |
| • Review diversity in the workplace against the following criteria<br>- perception<br>- awareness<br>- participation<br>- involvement | Ongoing |
| • Monitor objectives for each position when vacancies arises | Achieved |

| Measurable Objectives – 2013-2014 | Progress |
|---|---|
| • Analytic reviews of gender diversity within the organisation to determine priority actions and programs | |
| • Development of the LEAD program which will assist in creating a gender diverse leadership pipeline | |
| • Review recruitment practices so that when senior executive positions become available, at least one female applicant must be short listed (where possible) provided that they have the appropriate qualifications, skills and experience | |
| • Maintain a workplace free from discrimination and harassment | |
| • Continuing to ensure we maintain a workplace that supports staff with family, carer and cultural responsibilities | |

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 2013.

***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.*

| Position | Number | % |
|---|---|---|
| Number of women employees in the whole organisation | 440 | 60 |
| Number of women in senior executive positions* | 2 | 29 |
| Number of women on the Board | 0 | 0 |

* Executive includes members of the Executive Management Team and Company Secretary.

### 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 policy is reviewed annually by the Board and was last updated and disclosed on the ASX on 30 June 2011, in accordance with ASX Listing Rules. The policy addresses each of the ASX requirements including provisions relating to the prohibition of trading by Directors and Senior Executives in Collection House securities during defined blackout periods.

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

## PRINCIPLE 4
## Safeguard integrity in financial reporting

### Collection House Audit and Risk Management Committee and Charter

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. All members of the Committee are Independent, Non-executive Directors.

Information about each Committee member's qualifications, skills, experience and their attendance at Audit and Risk Management Committee meetings are set out in the Directors' 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.

### External Auditor Review

During the reporting period the Committee, at the direction of the Board, undertook a review of external audit services.

In undertaking the review, the Committee invited five audit firms, including the current auditors, two tier one and two mid-tier accounting firms, to respond to an Expression of Interest for the appointment of an external audit firm.

The Committee conducted an extensive evaluation of the participants' responses.

Based on the evaluation process made by the Committee, the Board determined that retaining the existing audit firm, Lawler Hacketts Audit as the external audit firm to carry out statutory audit services for the Company and its consolidated group was in the best interests of the Company and the Shareholders.

***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 can be viewed in the Investor area of the Company's website. The purpose of this policy is to set out the procedures to be followed to enable accurate, timely, clear and adequate disclosure to the market and compliance with ASX Listing Rules requirements. The policy details processes for:

- ensuring material information is communicated to Collection House's Board, its MD/CEO 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 through the Audit and Risk Management Committee. The Board's Audit and Risk Management Committee administers Collection House's Risk Management Policy.

This policy sets out procedures which are 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 receives periodic reports through the Audit and Risk Management Committee, summarising the results of risk management initiatives at Collection House.

### Managing Director/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 MD/CEO 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 Company 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 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's Board is responsible for determining and reviewing compensation arrangements for the Directors and Executives. Until 21 February 2013, Board functions were undertaken by the Remuneration Committee. The Remuneration Committee Charter set out how it operated on behalf of the Board.

From 21 February 2013, the Board as whole assumed the role, responsibilities and functions of the Remuneration Committee under the Remuneration Charter.

Until 21 February 2013, the members of the Remuneration Committee were Tony Coutts (Chair), David Gray and David Liddy. Information about each former Committee member's qualifications, skills, experience and their attendance at Remuneration Committee meetings are set out in the Directors' Report.

### Departure from Recommendations 8.1 and 8.2

The Principles and Recommendations recommend that the Board should establish a Remuneration Committee.

Taking into consideration the nature, size and 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 of the Remuneration Committee; and
- the full Board will carry out the functions and duties of the Committee in accordance with the Remuneration Charter.

In addition, as the Company is not an entity that trades in the top 300 of the S&P/ASX All Ordinaries Index, the Board resolved that:

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

The role of the Board when considering remuneration includes the review and recommendation of appropriate Directors' fees to be paid to Non-executive Directors.

The Board also considers how the remuneration policies are applied to Executives, including any equity-based remuneration plan that may be considered, subject to shareholder approval (where required). When considering the entitlement by Executives to short-term incentive (STI) and long-term incentive (LTI) payments and entitlements, the Board exercises its discretion in relation to the payment of these benefits having regard to the overall performance of individual Executives against objectives set by the Board for the MD/CEO and Executives, and the overall performance of the Consolidated Group. Details of STI and LTI schemes are set out in the Remuneration Report section of the Director's Report.

The objectives of Collection House's remuneration policies are 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.

Following the end of the financial year, the Board reviewed and approved:

- the MD/CEO and Senior Executives performance against objectives set by the Board for the financial year ending 30 June 2013 and consequently, the short-term bonus payments made to the MD/CEO and Senior Executives referable to the financial year ending 30 June 2013;
- the remuneration for the MD/CEO and Senior Executives which will apply during the financial year ending 30 June 2014;
- the short-term incentives for the MD/CEO and Senior Executives which will apply during the financial year ending 30 June 2014; and
- the long-term incentives for the MD/CEO and Senior Executives.

The Board is responsible for developing and monitoring the application of Collection House's Diversity Policy.

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

Collection House employees who hold Collection House Shares (unvested or vested as the case may be) under the Executive Share Option or Performance Right Plans are not permitted to hedge or create derivative arrangements in respect to those Shares or any of their rights and interests in any of those shares. Non-executive Directors do not participate in any share option or performance rights plans.

The rules of the Executive Share Option and Performance Rights Plans 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 include 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 and performance rights are set out in more detail in the Remuneration Report section of the Directors' Report.

***More information***

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

# OUR CORPORATE SOCIAL RESPONSIBILITY

# Responsible.

## Looking back

- Collection House has a history and reputation for leading the way in ethical debt collection and compliance.
- It has worked with various community groups, charities, financial counsellors and other organisations to generate positive community and individual outcomes, deepening this commitment in recent years.

## Looking forward

- During 2013–14, we will look to expand our approach to corporate social responsibility.
- This will include the development of specific reporting on corporate social responsibility activities, partnering with non-government organisations in new initiatives, and maintaining our commitment to robust community engagement.

**Collection House is driven by an unwavering commitment to business conduct that is ethical, lawful and respectful of our community and the environment.**

Collection House is widely recognised as setting the industry benchmark in compliant and ethical debt collection in Australasia.

This commitment is embedded in the values of the Company, our aspirational goals, the professionalism of our staff and our business practices.

This ethical commitment sets us apart from our competitors and is expressed in Collection House's approach to Corporate Social Responsibility, which consists of four key components:

- Respect for the Law
- Supporting our Communities
- Engaging our Stakeholders
- Protecting the Environment.

## RESPECT FOR THE LAW

Collection House is widely recognised as setting the industry benchmark in compliant and ethical debt collection in Australasia. We achieve this mainly through a compliance framework that seeks to generate the best outcome for our clients, customers and the Company.

The key features of our compliance framework are:

- our culture of compliance with the spirit and intent of the law, relevant legislation and regulatory requirements
- compliance and training programs that instil in our staff the importance of acting ethically and treating our customers with respect
- applying the ACCC and ASIC Debt Collection Guidelines: for collectors and creditors in our own internal Collectors' Code of Conduct and employment agreements with our people.

We also ensure that our customers have an opportunity to express any concerns and participate in a fair and transparent process that reflects these guidelines.

Collection House has a robust internal dispute resolution process that ensures customers who may have a complaint with our business activities are treated fairly. Customers are encouraged to contact our internal Dispute Resolution Team to discuss their complaint with our specialist Resolution Officers.

Our Resolution Officers address customer concerns in a timely, respectful and cost effective manner for both the customer and our Company. The number of unresolved matters lodged with the Financial Ombudsman Service in the year ended 30 June 2013 has decreased by approximately 80%, demonstrating our approach to working with financial counselors and consumer advocates.

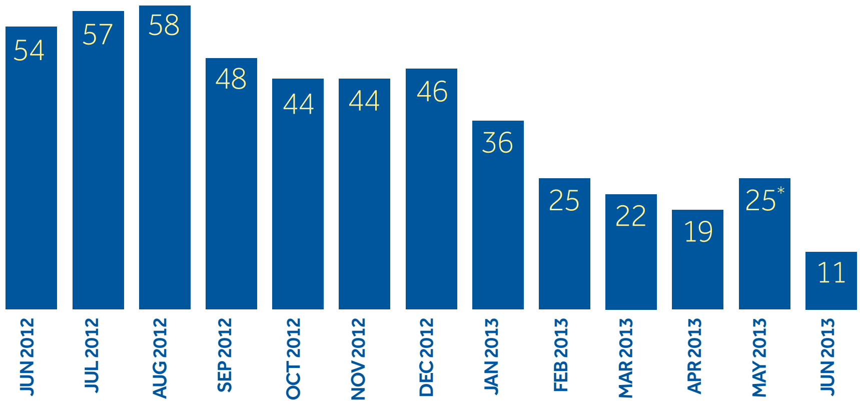
Collection House, as the first non-bank member of the Australian Financial Ombudsman Service Scheme, offers customers the option to access an independent external complaint and dispute resolution facility if our internal dispute resolution process does not meet their expectations.

In line with our commitment to open and transparent business practices, we encourage our business partners to regularly audit our collection operations and complaints handling processes.

Collection House corporate social responsibility framework

# OUR CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

**Collection House external dispute resolution matters not yet resolved with the Financial Ombudsman Service (FOS) (2012–2013)**




*The increase in the number of open matters in May 2013 to 25 was due to a temporary process change at FOS.

## SUPPORTING OUR COMMUNITIES

### FINANCIAL BASICS FOUNDATION

Collection House co-founded the Financial Basics Foundation (FBF) more than 12 years ago to teach Australian secondary school students about money and how to make sound financial choices. We are committed to the foundation and its objective of continuing financial literacy education in Australian classrooms.

FBF is a recognised leader in financial literacy education. FBF's teaching materials are used by 68% of Australian secondary schools, making a substantial contribution to equipping young Australians with the skills and knowledge to better manage their finances now and in the future.

During the year, the Foundation made some significant achievements:

- 1,831 schools now subscribe to the Operation Financial Literacy teaching resources, an increase from 1,767 schools in 2012. These resources are now being made available online in a digital format which will make them accessible to more students and teachers.
- More than 63,990 students have played the popular on-line game, ESSI Money since its release in late 2007. This included 21,027 students in 2012–13.
- Nine Professional Development workshops were delivered to commerce and mathematics teachers around Australia, outlining the application of FBF's materials within the new Australian Curriculum.
- The Australian Securities and Investments Commission invited FBF to participate in the planning of its inaugural MoneySmart week.
- The analysis of the First Survey of Users revealing overwhelming support for FBF and longevity amongst users.
- FBF funded and launched the Financial Basics Community Foundation, whose role is to provide similar financial literacy education opportunities to Australia's young rural and remote indigenous students.

## SUPPORTING COMMUNITIES

Collection House recognises the important role that charitable organisations play within our community. Our workforce is passionate about supporting these organisations, which we facilitate through four Company-wide initiatives:

### Employee monthly donations

Each month, employees are invited to make a gold coin donation to support a particular charity nominated by staff.

### Collection drives

Employees initiate collection drives (e.g. non-perishables or clothing) in support of charities such as Lifeline and Red Cross.

### Workplace Giving Program

Collection House employees are encouraged to participate in our Workplace Giving Program which offers a convenient and tax effective way to donate to a range of Australian charities.

### National Volunteering Program

Our employees are entitled to the equivalent of up to two volunteering days each year with their chosen charity or community organisation.

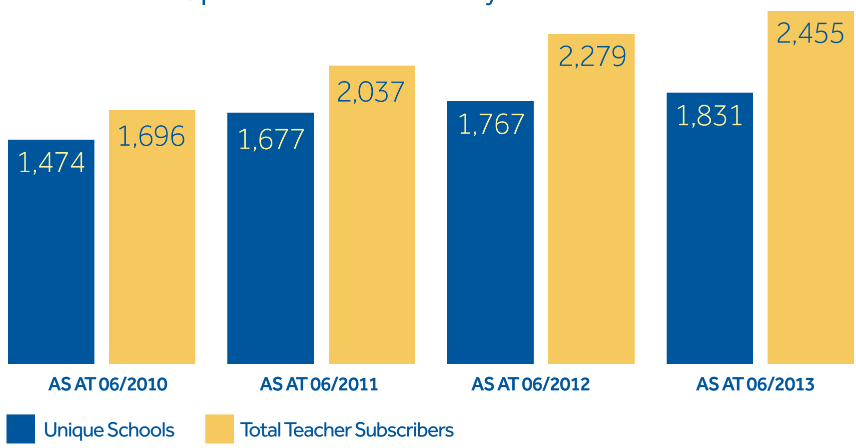
## ENGAGING STAKEHOLDERS

Collection House's key stakeholders are the various organisations that represent the interests of consumers, and in particular, those consumers who may be experiencing financial hardship.

Over the last year, Collection House has constructively engaged with a significant number of stakeholder groups including:

- Financial Counselling Australia
- the financial counselling bodies of every state and territory

## Enrolment with Operation Financial Literacy




Note: Operation Financial Literacy figures are year-on-year cumulative.

Image above: Jack Langley, Kristen Kajewski, and Matthew Bradford of Morayfield State High School learning financial literacy through the ESSI Money program.

- financial counselling agencies such as Salvation Army Moneycare and UnitingCare
- Community legal centres such as the Consumer Action Law Centre and Consumer Credit Legal Centre (New South Wales and Western Australia)
- Legal Aid (Queensland, New South Wales, Victoria, Western Australia and South Australia).

These organisations have provided positive and constructive feedback which has been incorporated into our day to day operations. For example, Collection House now has a process in place for our Customer Service Officers to identify vulnerable consumers and refer them to financial counsellors so that they can receive appropriate assistance and advice.

Over the last year, Collection House sponsored and participated in numerous financial counsellor conferences. Collection House and Lion Finance also participated in two major rounds of the National Bulk Debt Project (an initiative of Legal Aid in Victoria and New South Wales) and were praised for their compassion in responding to the circumstances of those in long-term and severe financial hardship.

We are now working with our industry peers and community stakeholders to develop an initiative that will benefit those vulnerable consumers who are experiencing long-term and severe financial hardship.

Our stakeholder engagement program has had a positive impact on our business in several ways including improved staff satisfaction and reduced customer complaints. We attribute this to a better understanding of our customers and the financial hardships they may experience, which we have developed by engaging regularly and constructively with our important stakeholder groups.

## PROTECTING THE ENVIRONMENT

At Collection House, we are committed to fostering the sustainable use of the earth's resources.

This commitment is demonstrated through an environmental policy and initiatives that seek to:

- integrate environmental management into business decision making at all levels
- reduce cost through better resource procurement, usage and waste management
- explore best practice and innovative environmental management approaches to the use of technology, property and related resources
- build an environmentally aware business culture.

Consistent with this commitment, we have developed our Brisbane Head Office and many of our business branches with enhanced working environments.

Our Brisbane Head Office is located in the heart of the vibrant business precinct of Fortitude Valley in the Green Square North Tower. Green Square has achieved a 6 star Green Star rating under the Green Building Council of Australia Scheme.

# DIRECTORS' REPORT

The directors present their report on the consolidated entity (referred to hereafter as the Company or the Group) consisting of Collection House Limited and the entities it controlled for the financial year ended 30 June, 2013.

## 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
- Dennis Punches
- Matthew Thomas (appointed as Managing Director on 6 March 2013)
- John Pearce
- Tony Coutts
- Kerry Daly
- David Gray

See pages 44 to 45 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 2013 $'000** | 30 June 2012 $'000 |
|---|---|---|
| **Final 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 19 October 2012.** | **3,490** | 3,060 |
| **Interim ordinary dividend for the year ended 30 June, 2013 of 3.6 cents fully franked (2012 – 3.2 cents fully franked) per fully paid share paid on 5 April 2013.** | **4,140** | 3,425 |

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 3.6 cents per fully paid share to be paid on 30 October 2013 out of retained profits and a positive net asset balance as at 30 June 2013.

## FY2013 HIGHLIGHTS

- Profit before tax for the year was **$22.3 million** (2012: $17.7 million)
- Earnings per share (EPS) were **13.7 cents** (2012: 12.1 cents)
- Shareholder equity was **$123 million** (2012: $109 million)
- Total dividends for the year of **7.2 cents** (interim 3.6 cents paid 5 April 2013, final 3.6 cents to be paid 30 October 2013), fully franked, (up 13% from FY12).

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The Consolidated Net Profit After Tax (NPAT) of $15.6 million for the year ended 30 June 2013 increased 23% from $12.7 million in the previous year. Total Revenue for the Group was $97.3 million an increase of 9.2%. Basic earnings per share increased 13.2% to 13.7 cents per share.

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

| | Collection Services | | Purchased Debt Ledgers | | Consolidated | |
|---|---|---|---|---|---|---|
| | 30 June 2013 $ '000 | 30 June 2012 $ '000 | 30 June 2013 $ '000 | 30 June 2012 $ '000 | 30 June 2013 $ '000 | 30 June 2012 $ '000 |
| **Revenue** | | | | | | |
| Sales | 39,779 | 38,033 | | | 39,779 | 38,033 |
| Collections from Purchased Debt Ledgers | | | 96,711 | 88,726 | 96,711 | 88,726 |
| Fair Value Movement in Purchased Debt Ledgers | | | (38,780) | (37,344) | (38,780) | (37,344) |
| Total segment revenue | 39,779 | 38,033 | 57,931 | 51,382 | 97,710 | 89,415 |
| Intersegment elimination | | | | | (404) | (276) |
| Consolidated revenue | 39,779 | 38,033 | 57,931 | 51,382 | 97,306 | 89,139 |
| **Results** | | | | | | |
| Segment result | 7,161 | 6,132 | 25,145 | 21,676 | 32,306 | 27,808 |
| Interest expense & borrowing costs | | | | | (6,164) | (6,179) |
| Unallocated revenue less unallocated expenses | | | | | (3,811) | (3,880) |
| Profit before Tax | | | | | 22,331 | 17,749 |
| Taxation | | | | | (6,717) | (5,067) |
| Net Profit After Tax | | | | | 15,614 | 12,682 |

### Collection Services Business

Commission collections, while competitive, generated demand for premium quality service. Revenue increased year on year by 4.6%. During the year, the Company replaced unprofitable business with more profitable new business at increased margins. The segment result for the year of $7.2 million increased 16.8% from the previous year result of $6.1 million. The segment, through its improved productivity and profitability, contributed to the total net operating cash flow of the Group. Total accounts referred increased 15.4% to $912 million in the year.

The Victorian based business of CreditCollect was acquired in February 2013 and successfully merged with Midstate to create, the now combined Midstate CreditCollect Group.

### Purchased Debt Ledgers Business

Total Purchased Debt Ledgers (PDL) collections increased 9% to $96.7 million for the year ended 30 June 2013. The segment result for the year was $25.1 million, an increase of 16%. PDL acquisitions were $52.3 million compared to $61 million in 2012. During the year, the Group sold and converted low value and aged PDL portfolios for a consideration of $2.2 million reflecting a growing demand in the market.

During the year, the continued use of analytics, scoring/modelling and customer data validation yielded profitable growth as demonstrated by the increased collections coming from older portfolios.

Total repayment arrangements and litigated accounts portfolio increased to $300 million from $274 million in the previous year. Total collections in the year from this portfolio was 71% of total PDL Collections, an increase of 7.5% on the previous year.

The availability of debt for sale was solid, with additional debt sellers entering the market and less activity seen from some competitors. Higher pricing was noticed on some specific PDL transactions but, pricing on mainstream purchases was within historical norms.

# DIRECTORS' REPORT (CONTINUED)

Collection House International BPO, Inc. (Manila) was established in April 2012. This existing facility was fully utilised with productivity trending positively. There are plans to expand the Manila operation in the medium term, to optimise this facility for the Group.

### Review of financial position

The consolidated entity's net assets increased 13% to $123.3 million. Total net borrowings reduced to $87.0 million in 2013, down from $87.6 million in 2012.

The Company's net cash flow from operating activities was $62.2 million, an increase of 8.5%. Free cash flow after PDL investments in 2013 was $9.3 million.

During the year, the Company renewed its banking facility with Westpac for a further 3 years. The facility was varied by an increased limit to $115 million. All covenants have been met with the loan to value ratio at 43%, compared to the covenant of 55%.

The Board has confirmed its confidence in the Group's future prospects. The directors have recommended the payment of a final fully franked dividend as stated on page 40.

### Business strategies and prospects for future financial years

An improved Strategy Management System will be developed in 2014 to strengthen the cycle of situation awareness/stakeholder input, strategy formulation, execution and reporting.

Enduring strategic themes of innovation, differentiation and people-focus will continue to underpin our overall growth strategy.

Growth will be driven by leveraging our "one stop shop" diversified model, engaging in broader markets/sectors, and introducing leading edge financial solutions to both clients and customers. Improving growth will be achieved through strong existing client relationships and expanding into new market sectors.

Enhancing customer interactions through multiple channels will include more focus on web based technologies and leveraging our new collection platform C5.

The Group guidance of its Net Profit After Tax for the financial year ended 30 June 2014 is between $17 million and $18 million.

It is planned that $60-$70 million will be invested to grow the Company's PDL portfolios, subject to market conditions and pricing. $40 million of this has already been transacted or committed under contract.

Planning will commence for the further expansion of the Company's Manila operations (Collection House International BPO, Inc.) in the medium term.

In the longer term, we will seek to maintain the Company's track record of increasing profitability and dividends for shareholders.

### Critical factors related to Collection Services

*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 proactive and superior professional service to clients to meet their needs. Our clients require ethical and compliant collections, ongoing reporting of performance and regular and timely remittance of funds collected on their behalf.

### Critical factors related to Purchase Debt Ledgers

*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 submitting a bid to purchase.

The ability to accurately price debts is reliant upon having access to reliable 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.

Higher pricing was noticed on some specific transactions but pricing on the mainstream purchases has been within long-term typical range.

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

As equally 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 appropriate action, if required.

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

PDL collections, as a percentage of book value, has increased slightly, reflecting collections being achieved in line with pricing expectations and assets expensed consistently and in accord with actual collections.

*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 applies significant resources to ensure purchased debts are placed on arrangement as expeditiously 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 Matthew Thomas was appointed as Managing Director of the Company on 6 March 2013.

(b) The Group raised capital of $1.34 million from a Dividend Reinvestment Plan and $1.56 million from a Placement with sophisticated and institutional investors.

(c) The Group purchased new debt ledger portfolios for A$52.3 million.

(d) The Group's wholly owned subsidiary, Midstate Credit Management Services Pty Ltd, acquired the commercial agency business of CreditCollect based at Traralgon, Victoria on 14 February 2013 – later this subsidiary changed its name to Midstate CreditCollect Pty Ltd to optimise the benefit and synergies of the combined business operations in Victoria.

(e) Midstate CreditCollect Pty Ltd commenced a multidisciplinary business model offering collection services as a commercial agent and, legal services as an incorporated legal practice in Victoria, effective from July 2013.

## 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 3.6 cents per fully paid share to be paid on 30 October 2013 out of retained profits and a positive net asset balance as at 30 June 2013.

Other than the matters discussed above, no matter or circumstance has arisen since 30 June 2013 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.

## 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.

# DIRECTORS' REPORT (CONTINUED)

## INFORMATION ON DIRECTORS AS AT 30 JUNE 2013

| David Liddy | Independent, Non-executive Chairman. Age 62 |
|---|---|
| Experience | Appointed to the Board and as Chairman of Collection House Limited in March 2012, Mr 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) from 2001 to his retirement in August 2011. Prior to joining BOQ, David spent 33 years at Westpac Banking Corporation.<br><br>Mr Liddy 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.<br><br>Mr Liddy is also Chairman of Financial Basics Foundation and Financial Basics Community Foundation, a Non Executive Director of Emerchants Limited, a Non-executive Director of Steadfast Group Limited, a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors. |
| Special responsibilities | Mr Liddy was a Member of the Remuneration Committee until the Committee was absorbed by the Board on 21 February 2013. |
| Interest in shares and options | 100,000 ordinary shares in Collection House Limited. |

| Dennis Punches | Non-executive Deputy Chairman. Age 77 |
|---|---|
| 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. |
| Interest in shares and options | 14,452,535 ordinary shares in Collection House Limited. |

| Matthew Thomas | Managing Director and Chief Executive Officer. Age 42 |
|---|---|
| Experience | Appointed to the Board in March 2013, Matthew has over 22 years experience in the finance and collections industry and has been with Collection House for 14 years. Since starting with Collection House as a Customer Service Officer in 1999, Mr Thomas climbed the ranks in positions such as IT Manager and Chief Information Officer. In 2007, Mr Thomas was promoted to Chief Operating Officer encompassing all collection operations, as well as Group IT strategy and business analysis. Mr Thomas was appointed to Chief Executive Officer in July 2010.<br><br>In his 18 years in senior management, Mr Thomas has gained experience in a broad range of industries including banking and finance, insurance, telecommunications, and small business, as well as statutory recoveries such as Workers' Compensation premiums. |
| Interest in shares, options and performance rights | 735,931 ordinary shares in Collection House Limited. 295,800 options and 628,119 performance rights over ordinary shares in Collection House Limited. |

| John Pearce | Non-executive Director. Age 68 |
|---|---|
| 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. Mr Pearce stepped down as Chairman of Collection House Limited on 27 March 2012. 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. |
| Interest in shares and options | 9,017,584 ordinary shares in Collection House Limited. |

| | |
|---|---|
| **Tony Coutts** | **Independent, Non-executive Director. Age 54** |
| 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. 18 years in the finance and insurance industry (Australian Guarantee Corporation Ltd). 18 years in the debt collection industry at Collection House. |
| Special responsibilities | Mr Coutts is a Member of the Audit and Risk Management Committee. Mr Coutts was Chair of the Remuneration Committee until the Committee was absorbed by the Board on 21 February 2013. |
| Interest in shares and options | 4,821,665 ordinary shares in Collection House Limited. |
| **Kerry Daly** | **Independent, Non-executive Director. Age 55** |
| 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 | 380,000 ordinary shares in Collection House Limited. |
| **David Gray** | **Independent, Non-executive Director. Age 66** |
| 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), Deputy Chairman of Civil Aviation Safety Authority (CASA) (July 2009) and a Director of the Brisbane Airport Corporation (April 2010).<br><br>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).<br><br>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. Mr Gray was a Member of the Remuneration Committee until the Committee was absorbed by the Board on 21 February 2013. |
| Interest in shares and options | 160,000 ordinary shares in Collection House Limited. |

# DIRECTORS' REPORT (CONTINUED)

## COMPANY SECRETARY

The Company Secretaries to 30 June 2013 were Michael Watkins and Julie Tealby.

Michael Watkins was appointed to the position of Company Secretary on 21 December 2006. Before joining Collection House Limited, Mr 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 is a Fellow member of Chartered Secretaries Australia and undertakes the combined roles of General Counsel and Company Secretary for the Group.

Julie Tealby was appointed Company Secretary on 31 January 2013. Mrs Tealby holds a Bachelor of Business (Accountancy), has been a member of CPA Australia for 14 years and is a professional member of the Institute of Internal Auditors. Previously, Mrs Tealby held Board and Company Secretary positions with the Financial Basics Foundation and the Financial Basics Community Foundation. Prior to 2001, Mrs Tealby held the position of Financial Controller and Company Secretary with Collection House Limited. Since 2005, Mrs Tealby has also been the Company's Internal Auditor.

## 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 2013, and the numbers of meetings attended by each director were:

| 2013 | Directors | | Meetings of committees: Audit and Risk Management | | Meetings of committees: Remuneration* | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| David Liddy | 6 | 6 | ** | ** | 1 | 1 |
| Dennis Punches | 6 | 6 | ** | ** | ** | ** |
| Matthew Thomas (appointed 6 March 2013) | 1 | 1 | ** | ** | ** | ** |
| John Pearce | 6 | 6 | ** | ** | ** | ** |
| Tony Coutts | 6 | 6 | 6 | 6 | 1 | 1 |
| Kerry Daly | 6 | 6 | 6 | 6 | ** | ** |
| David Gray | 6 | 6 | 6 | 6 | 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 role and function of the Remuneration Committee was absorbed by the Board on 21 February 2013.

** Not a member of the relevant Board Committee

## REMUNERATION REPORT – AUDITED

This Remuneration Report outlines the remuneration arrangements of Collection House Limited, including the remuneration strategy, framework and practices adopted by the Group for the period 1 July 2012 to 30 June 2013 and has been prepared in accordance with section 300A of the *Corporations Act 2001* and its regulations.

The Remuneration Report is presented under the following main headings:

A Directors and key management personnel disclosed in this report

B Remuneration governance

C Executive remuneration policy and framework

D Relationship between remuneration and the Group's performance

E Non-executive director remuneration policy

F Details of remuneration of directors and key management personnel

G Service agreements

H Share-based compensation

I Additional information

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

## A DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSED IN THIS REPORT

The Key Management Personnel (KMP) include those persons having authority and responsibility for planning, directing and controlling the major activities of Collection House Limited.

The directors and KMP for the financial year ended 30 June 2013 are as follows:

### Non-executive Directors:

**David Liddy**
Chairman (Non-executive)

**Dennis Punches**
Deputy Chairman (Non-executive)

**John Pearce**
Director (Non-executive)

**Tony Coutts**
Director (Non-executive)

**Kerry Daly**
Director (Non-executive)

**David Gray**
Director (Non-executive)

### Executive Director:

**Matthew Thomas**
Managing Director and Chief Executive Officer (MD/CEO) (appointed 6 March 2013)

### Executives:

**Adrian Ralston**
Chief Financial Officer

**Paul Freer**
Chief Operating Officer (appointed 4 March 2013)

**Michael Watkins**
General Counsel and Company Secretary

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

## B REMUNERATION GOVERNANCE

Collection House's Board is responsible for determining and reviewing remuneration arrangements for the directors and Executives. Taking into consideration the nature, size and composition of the Board, and the allocation of scarce director resources, the Board determined that:

- it was ultimately responsible for the role, responsibilities and functions of the Remuneration Committee; and
- the full Board will carry out the duties and functions of the Committee, in accordance with the Remuneration Charter.

The role of the Board when considering remuneration includes the review and recommendation of appropriate Directors' fees to be paid to Non-executive Directors.

The Board also considers how the remuneration policies are applied to Executives, including any equity based remuneration plan that may be considered, subject to shareholder approval (where required). When considering the entitlement by Executives to short-term incentive (STI) and long-term incentive (LTI) payments and entitlements, the Board exercises its discretion in relation to the payment of these benefits having regard to the overall performance of individual Executives against objectives set by the Board for the Executives, and the overall performance of the Consolidated Group.

Fundamental to all arrangements is that they contribute to the achievement of short and long term objectives, enhance shareholder value, avoid unnecessary or excessive risk taking and discourage behaviours that are contrary to the Group's values.

Details of STI and LTI schemes are set out in the "Relationship between remuneration and the Group's performance" section of the Remuneration Report below.

The objectives of the Group's remuneration policies are to ensure that its Executive's remuneration package reflects their duties, responsibilities and levels of performance, as well as to ensure that Executives are motivated to pursue the long-term growth and success of the Group.

In determining Executive remuneration, the Board aims to ensure that remuneration practices:

- incentivise Executives to pursue the short-term and long-term growth and success of the Group within an appropriate risk control framework;
- are competitive and reasonable, enabling the Group to attract and retain key talent, knowledge and experience;
- are aligned to the Group's strategic and business objectives and the creation of shareholder value.

**Use of external consultants**

In performing its role, the Board may directly commission and receive information, advice and recommendations from independent external advisers to ensure the appropriateness of remuneration packages of the Group to reflect trends in employment markets, and to achieve the objectives of the Group's remuneration strategy.

The Remuneration Committee and the Board last employed the services of Egan Associates Pty Limited to review its existing remuneration policies and to provide recommendations in respect of both Executive STI and LTI plan design in April 2012, for use in the financial period ending 30 June 2013 and beyond. The Group did not obtain external remuneration reports during the reporting period.

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

The Group received an unanimous vote in favour, on a show of hands, of its Remuneration Report for the 2012 financial year.

**Securities Trading Policy**

The trading of shares issued to eligible employees under any of the Company's employee equity plans was 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 misconduct which may lead to disciplinary action and potentially, dismissal.

## C EXECUTIVE REMUNERATION POLICY AND FRAMEWORK

The Board reviews Executive remuneration packages annually by reference to individual performance against key individual objectives and the consolidated Group results. The performance review of the MD/CEO is undertaken by the Board. The performance reviews of other Executives are undertaken by the MD/CEO and approved by the Board.

The Executive pay and reward framework has three components:

- base pay and benefits including superannuation;
- short-term incentive (STI);
- long-term incentive (LTI) through participation in the Performance Rights Plan approved by the Board.

The combination of these components amount to the Executive's total remuneration package 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 remains competitive with the market. An Executive's pay is also reviewed on promotion.

**Benefits**

The major LTI benefit provided to Executives and eligible employees is the ability to participate in the Performance Rights Plan at the discretion of the Board or the MD/CEO and subject to certain performance conditions.

**Retirement Benefits for Executives**

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

## D RELATIONSHIP BETWEEN REMUNERATION AND THE GROUP'S PERFORMANCE

To ensure that Executive remuneration is aligned to Company performance, a significant component of Executives remuneration package is performance based and therefore, "at risk".

**Short Term Incentive (STI)**

Executives and senior management participated in the 2013 financial year STI program, which was set and approved by the Board. The proportion of each Executive's and senior manager's STI was determined by the Board's assessment of Key Performance Targets and Strategic Goals set at the start of the financial year, which comprised both financial and non financial objectives that align to the overall strategic plan to increase shareholder value.

The financial performance objectives included Net Profit After Tax (NPAT), Return on Earnings, Debt Gearing, Earnings Before Interest and Tax (EBIT) targets.

The non financial objectives vary with position, role and responsibility and included measures such as achieving strategic outcomes, developing people, growth, differentiation, innovation and other key initiatives during the financial year.

This structure ensures that Executives' and senior managers' STIs are only paid when individual Executives and senior managers deliver against their key objectives and the Company's strategic goals.

### Long Term Incentive (LTI)

To create a strong link between remuneration and performance, the Board has enhanced its LTI program, via the introduction of a Performance Right Plan (PRP), as a means of rewarding and incentivising its key employees.

The LTI program has the objective of delivering long-term shareholder value by incentivising Executives and eligible employees to achieve sustained financial performance over a three year period.

Performance rights were awarded to various eligible employees on and from 1 July 2012 pursuant to the PRP, at a nil exercise price and subject to achieving certain performance hurdles, which were approved by the Board.

To ensure delivery of long-term shareholder value, the number of performance rights that will vest (and therefore be capable of being exercised) will depend on the Group achieving certain performance hurdles at 30 June 2015. The performance hurdles include the satisfactory achievement of confidential performance conditions approved by the Board including Average Return on Equity (ROE), Debt/Debt + Equity, Earnings Per Share (EPS) base and EPS stretch metrics. The 2013 performance rights will expire on 30 September 2015.

1,356,238 unlisted Performance Rights over ordinary shares in the Company were issued to Executives and eligible employees for the period 1 July 2012 to 30 June 2015.

LTI in the form of Performance Rights will be issued annually to Executives and eligible employees for a 3 year period. The next performance rights issue will relate to the 3 year period 1 July 2013 to 30 June 2016, based on performance conditions to be determined by the Board.

## E NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Non-executive Director's 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 or performance rights.

Payments are allowed for additional responsibilities for Board Chairmanship, 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 (an increase of $8,000 per annum was applied from 1 March 2013):

| FEES | From 1 March 2013 | From 25 August 2009 to 28 February 2013 |
|---|---|---|
| Base fees | | |
| Chairman | $158,000 | $150,000* |
| Chairman | - | $50,000** |
| Other Non-executive Directors | $58,000 | $50,000 |
| Additional fees | | |
| Audit and Risk Management Committee Chair | $30,000 | $30,000 |
| Audit and Risk Management Committee Member | $15,000 | $15,000 |

* During the financial year ended 30 June 2012, 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.

** During the financial year ended 30 June 2012, John Pearce received Non-executive Director's fee/Chairman's fee of $50,000 per annum plus superannuation from 1 July 2011 to 30 June 2012.

For further information in relation to Directors remuneration, refer to page 50.

### Retirement allowances for Directors

There are no retirement allowances paid to Non-executive Directors.

## F DETAILS OF REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

### Amounts of remuneration

Details of the remuneration of directors and KMP (as defined in AASB 124 Related party Disclosures) of the Group are set out in the following tables.

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

- Matthew Thomas – Managing Director and Chief Executive Officer
- Adrian Ralston – Chief Financial Officer
- Paul Freer – Chief Operating Officer
- Michael Watkins – General Counsel and Company Secretary
- Kylie Lynam – General Manager – Human Resources and Corporate Services

Remuneration for directors and the KMP for the Group for the relevant period was as follows:

| NON-EXECUTIVE DIRECTORS | | Short-Term Benefits Salary & Fees $ | Cash Bonus $ | Non-Monetary Benefits $ | Other $ | Post Employment Benefits Super $ | Share Based Payments Options $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| David Liddy **Chairman** | **2013** | **152,461** | **-** | **-** | **-** | **13,721** | **-** | **166,182** |
| | 2012 | 36,923 | - | - | - | 3,323 | - | 40,246 |
| Dennis Punches **Deputy Chairman** | **2013** | **52,666** | **-** | **-** | **-** | **-** | **-** | **52,666** |
| | 2012 | 50,000 | - | - | - | - | - | 50,000 |
| John Pearce **Director** | **2013** | **52,462** | **-** | **-** | **-** | **4,722** | **-** | **57,184** |
| | 2012 | 50,000 | - | - | - | 4,500 | - | 54,500 |
| Tony Coutts **Director** | **2013** | **67,462** | **-** | **-** | **-** | **6,072** | **-** | **73,534** |
| | 2012 | 65,000 | - | - | - | 5,850 | - | 70,850 |
| Kerry Daly **Director** | **2013** | **82,462** | **-** | **-** | **-** | **7,422** | **-** | **89,884** |
| | 2012 | 80,000 | - | - | - | 7,200 | - | 87,200 |
| David Gray **Director** | **2013** | **67,173** | **-** | **-** | **-** | **6,046** | **-** | **73,219** |
| | 2012 | 50,000 | - | - | - | 4,500 | - | 54,500 |
| Bill Kagel Director (retired 28 October 2011) | **2013** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | 2012 | 16,346 | - | - | - | - | - | 16,346 |

| EXECUTIVE DIRECTOR AND OTHER KEY PERSONNEL | | Short-Term Benefits Salary & Fees $ | Cash Bonus $ | Non-Monetary Benefits $ | Other $ | Post Employment Benefits Super $ | Share Based Payments Options $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| Executive Director | | | | | | | | |
| Matthew Thomas **Managing Director and Chief Executive Officer** | **2013** | **518,169** | **500,000** | **3,476** | **-** | **24,908** | **166,270** | **1,212,823** |
| | 2012 | 400,845 | 300,000 | 3,375 | - | 63,000 | 75,309 | 842,529 |
| Other Key Personnel | | | | | | | | |
| Adrian Ralston **Chief Financial Officer** | **2013** | **295,169** | **73,000** | **3,476** | **-** | **25,930** | **39,127** | **436,702** |
| | 2012 | 250,953 | 61,482 | 3,375 | - | 28,120 | 30,093 | 374,023 |
| Paul Freer (appointed 4 March 2013) **Chief Operating Officer** | **2013** | **76,923** | **17,000** | **-** | **-** | **6,923** | **17,667** | **118,513** |
| | 2012 | - | - | - | - | - | - | - |
| Michael Watkins **General Counsel and Company Secretary** | **2013** | **269,407** | **68,000** | **3,476** | **-** | **24,247** | **22,495** | **387,625** |
| | 2012 | 251,052 | 60,849 | 3,375 | - | 28,071 | 22,557 | 365,904 |
| Kylie Lynam **General Manager – Human Resources and Corporate Services** | **2013** | **195,692** | **47,000** | **3,476** | **-** | **17,612** | **31,612** | **295,392** |
| | 2012 | 153,548 | 37,498 | 3,375 | - | 17,194 | 22,557 | 234,172 |

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 | 2013 Performance Based (%) – STI | 2013 Performance Based (%) – LTI* | 2013 (%) Fixed |
|---|---|---|---|
| 1. Matthew Thomas | 41 | 14 | 45 |
| 2. Adrian Ralston | 17 | 9 | 74 |
| 3. Paul Freer | 14 | 15 | 71 |
| 4. Michael Watkins | 18 | 6 | 76 |
| 5. Kylie Lynam | 16 | 11 | 73 |

* The long-term incentive is being provided by way of options and performance rights based on the value of options and performance rights expensed during the year.

## G SERVICE AGREEMENTS

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:

| | | |
|---|---|---|
| Matthew Thomas **Managing Director/Chief Executive Officer** | Annual Base Salary | $548,476 inclusive of superannuation for the year ended 30 June 2013 |
| | Performance cash bonus | $500,000 exclusive of superannuation was paid or payable in relation to the year ended 30 June 2013 |
| | Options | 250,000 options were granted in 2008. Required performance hurdles were achieved and all options have been exercised<br>1,479,000 options were granted in 2011. 80% of performance hurdles have been achieved and 1,183,200 options have been exercised in FY2013 |
| | Performance Rights | 628,119 performance rights were issued in 2013<br>See note 33 for further details |
| Adrian Ralston **Chief Financial Officer** | Annual Base Salary | $325,537 inclusive of superannuation for the year ended 30 June 2013 |
| | Performance cash bonus | $73,000 exclusive of superannuation was paid or payable in relation to the year ended 30 June 2013 |
| | Options | 200,000 options were granted in 2008. Required performance hurdles were achieved and all options have been exercised<br>591,000 options were granted in 2011. 80% of performance hurdles have been achieved and 472,800 options have been exercised in FY2013 |
| | Performance Rights | 62,812 performance rights were issued in 2013<br>See note 33 for further details |
| Paul Freer **Chief Operating Officer** (appointed 4 March 2013) | Annual Base Salary | $272,500 inclusive of superannuation for the year ended 30 June 2013. (Paul was appointed on 4 March 2013 and paid $83,846 inclusive of superannuation for the period to 30 June 2013) |
| | Performance cash bonus | $17,000 exclusive of superannuation was paid or payable in relation to the year ended 30 June 2013 |
| | Performance Rights | 100,000 performance rights were issued in 2013<br>See note 33 for further details |

| | | |
|---|---|---|
| Michael Watkins<br>**General Counsel and Company Secretary** | Annual Base Salary | $296,906 inclusive of superannuation for the year ended 30 June 2013 |
| | Performance cash bonus | $68,000 exclusive of superannuation was paid or payable in relation to the year ended 30 June 2013 |
| | Options | 225,000 options were granted in 2008. Required performance hurdles were achieved and all options have been exercised<br>443,000 options were granted in 2011. 80% of performance hurdles have been achieved and 354,400 options have been exercised in FY2013<br>See note 33 for further details |
| Kylie Lynam<br>**General Manager – Human Resources and Corporate Services** | Annual Base Salary | $216,960 inclusive of superannuation for the year ended 30 June 2013 |
| | Performance cash bonus | $47,000 exclusive of superannuation was paid or payable in relation to the year ended 30 June 2013 |
| | Options | 150,000 options were granted in 2008. Required performance hurdles were achieved and all options have been exercised<br>443,000 options were granted in 2011. 80% of performance hurdles have been achieved and 354,400 options have been exercised in FY2013 |
| | Performance Rights | 62,812 performance rights were issued in 2013<br>See note 33 for further details |

## H SHARE BASED COMPENSATION

**Options and Performance Rights**

Options and Performance Rights have been granted to certain eligible employees under the Collection House Executive Share Option Plan and Performance Rights Plan respectively.

The terms and conditions of all Options and Performance Rights mentioned above affecting remuneration in the previous, this or future reporting periods are set out in note 33 of the financial statements. Refer to page 114.

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

Details of Options and Performance Rights over ordinary shares in the Company provided as remuneration to each Executive Director of the Company and Group Executives are set out below. Further information on the Options and Performance Rights is set out in note 33 of the financial statements. Refer to page 114.

| | Number of options granted during the year | | Number of options vested during the year | |
|---|---|---|---|---|
| Name | **2013** | 2012 | **2013** | 2012 |
| 1. Matthew Thomas | **-** | - | **1,283,200** | - |
| 2. Adrian Ralston | **-** | - | **552,800** | - |
| 3. Paul Freer | **-** | - | **-** | - |
| 4. Michael Watkins | **-** | - | **444,400** | - |
| 5. Kylie Lynam | **-** | - | **414,400** | - |

| | Number of performance rights issued during the year | | Number of performance rights vested during the year | |
|---|---|---|---|---|
| Name | **2013** | 2012 | **2013** | 2012 |
| 1. Matthew Thomas | **628,119** | - | **-** | - |
| 2. Adrian Ralston | **62,812** | - | **-** | - |
| 3. Paul Freer | **100,000** | - | **-** | - |
| 4. Michael Watkins | **-** | - | **-** | - |
| 5. Kylie Lynam | **62,812** | - | **-** | - |

The assessed fair value at the relevant 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.

The assessed fair value at grant date of performance rights compensation granted to key employees has been independently determined and is calculated using the five day volume weighted average price (VWAP). The expense is recognised over the vesting period. The expense for each relevant financial year will require an assessment at each reporting date of the probability that each performance hurdle will be achieved.

**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 Executive Director of the Company and Group Executives are set out below.

| | Number of ordinary shares issued on exercise of options during the year | | Amounts paid per ordinary share | |
|---|---|---|---|---|
| Name | **2013** | 2012 | **2013** | 2012 |
| ESOP 2008 | | | | |
| 1. Matthew Thomas | **100,000** | 150,000 | **0.4927 cents** | 0.4927 cents |
| 2. Adrian Ralston | **200,000** | - | **0.4927 cents** | - |
| 3. Paul Freer | **-** | - | **-** | - |
| 4. Michael Watkins | **225,000** | - | **0.4927 cents** | - |
| 5. Kylie Lynam | **150,000** | - | **0.4927 cents** | - |
| ESOP 2010 | | - | | |
| 1. Matthew Thomas | **1,183,200** | - | **0.6938 cents** | - |
| 2. Adrian Ralston | **472,800** | - | **0.6938 cents** | - |
| 3. Paul Freer | **-** | - | **-** | - |
| 4. Michael Watkins | **354,400** | - | **0.6938 cents** | - |
| 5. Kylie Lynam | **354,400** | - | **0.6938 cents** | - |

## I ADDITIONAL INFORMATION

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:

| | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Net profit after tax ($m's) | $7.85 | $8.92 | $10.11 | $12.68 | **$15.61** |
| Dividends Declared | 4.9 cents franked | 5.8 cents franked | 6.2 cents franked | 6.4 cents franked | **7.2 cents franked** |
| Share price commenced | $0.465 | $0.47 | $0.76 | $0.69 | **$0.80** |
| Share price ended | $0.49 | $0.75 | $0.65 | $0.79 | **$1.65** |
| Basic Earnings per share (including discontinued operations) | 8.1 cents | 9.2 cents | 10.4 cents | 12.1 cents | **13.7 cents** |

### Details of remuneration: cash bonuses, options and performance rights

For each cash bonus, grant of options and performance rights included in the table on page 51 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 or performance rights will vest unless the vesting conditions are met (see note 33 for details), hence the minimum value of the options or performance rights yet to vest is nil. The maximum value of the options or performance rights yet to be expensed has been determined as the amount of the grant date fair value of the options and performance rights that are yet to be expensed.

| | Cash bonus 2013 | | Options/Performance Rights | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Paid % | Forfeited % | Financial Year granted | Vested % | Forfeited % | Lapsed $ | Financial years in which options/performance rights may vest (subject to certain qualifying hurdles) Refer to note 33 | Minimum total value of options/performance rights yet to be expensed | Maximum total value of options/performance rights yet to be expensed |
| Matthew Thomas | 100 | - | 2008 | 100% | - | - | 2011 – 2013 | 0 | 0 |
| | | | 2011 | 80% | - | - | 2012 – 2014 | 0 | 49,589 |
| | | | 2013 | 0% | - | - | 2016 | 0 | 408,833 |
| Adrian Ralston | 98 | 2 | 2008 | 100% | - | - | 2011 – 2013 | 0 | 0 |
| | | | 2011 | 80% | - | - | 2012 – 2014 | 0 | 19,815 |
| | | | 2013 | 0% | - | - | 2016 | 0 | 40,883 |
| Paul Freer | 100 | - | 2013 | 0% | - | - | 2016 | 0 | 141,333 |
| Michael Watkins | 100 | - | 2008 | 100% | - | - | 2011 – 2013 | 0 | 0 |
| | | | 2011 | 80% | - | - | 2012 – 2014 | 0 | 14,853 |
| Kylie Lynam | 95 | 5 | 2008 | 100% | - | - | 2011 – 2013 | 0 | 0 |
| | | | 2011 | 80% | - | - | 2012 – 2014 | 0 | 14,853 |
| | | | 2013 | 0% | - | - | 2016 | 0 | 40,883 |

### 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 26 to the financial statements.

### Shares under option

Long-term incentives are provided to certain eligible employees via the Executive Share Option Plan and Performance Rights Plan, see note 33 for further information. Unissued ordinary shares of Collection House Limited under option at the date of this report are as follows:

| Options | Date options granted | Number of options granted | Issue price of shares | No of shares issued 2013 | No of unvested shares under options | Expiry date |
|---|---|---|---|---|---|---|
| Former MD/CEO Options | 31/10/08 | 2,000,000 | $0.4927 | 800,000 | Nil | 25 June 2013 |
| Executive Share Option Plan | 18/7/08 | 1,437,500 | $0.4927 | 912,500 | Nil | 25 June 2013 |
| | 1/3/11 | 2,956,000 | $0.6938 | 2,364,800 | 591,200 | 23 December 2013 |

| Performance Rights | Date rights effective | Number of rights issued | Issue price of shares | No of shares issued 2013 | No of unvested shares under rights | Expiry date |
|---|---|---|---|---|---|---|
| Performance Rights Plan | 1/7/12 | 1,256,238 | Nil | Nil | 1,256,238 | 30 September 2015 |
| Performance Rights Plan | 4/3/13 | 100,000 | Nil | Nil | 100,000 | 30 September 2015 |

## ADDITIONAL INFORMATION (UNAUDITED)

### Insurance of officers

During the financial year, the Group paid a premium of $47,505 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, was satisfied that the provision of the non-audit services during the year was 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 were 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 2013 | 30 June 2012 |
| 1. Audit services, Lawler Hacketts Audit<br>Audit and review of the financial reports and other audit work under the *Corporations Act 2001*. | **144,500** | 137,200 |
| Total remuneration for audit services | **144,500** | 137,200 |
| 2. Other assurance services, Lawler Hacketts Audit | **85,500** | 85,500 |
| Total remuneration for audit-related services | **85,500** | 85,500 |
| TOTAL REMUNERATION | **230,000** | 222,700 |

### 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 56.

### 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

22 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

lawler hacketts chartered accountants

**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 2013 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, 22 August 2013**

Lawler Hacketts Audit
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advice@lawlerhacketts.com.au

# FINANCIAL STATEMENTS

## contents



# INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | CONSOLIDATED 30 June 2013 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| Commission | | **39,131** | 37,426 |
| Other revenue | | **244** | 331 |
| Collections of purchased debt ledgers | | 96,711 | 88,726 |
| Change in Fair Value of purchased debt ledgers | 5 | (38,780) | (37,344) |
| Net gain on other financial assets – purchased debt ledgers | | **57,931** | 51,382 |
| **Revenue from continuing operations** | | **97,306** | 89,139 |
| Depreciation and amortisation expense | 5 | **(1,949)** | (2,142) |
| Other expenses | | **(5,722)** | (6,034) |
| Employee expenses | | **(42,688)** | (39,254) |
| Direct collection costs | | **(14,066)** | (14,006) |
| Operating lease rental expense | | **(4,386)** | (3,775) |
| Finance costs | 5 | **(6,164)** | (6,179) |
| **Profit before income tax** | | **22,331** | 17,749 |
| Income tax expense | 6 | **(6,717)** | (5,067) |
| Profit from continuing operations | | **15,614** | 12,682 |
| **Profit for the year** | | **15,614** | 12,682 |
| Profit is attributable to: | | | |
| Equity holders of Collection House Limited | | **15,614** | 12,682 |
| | | **15,614** | 12,682 |
| | | Cents | Cents |
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 32 | **13.7** | 12.1 |
| Diluted earnings per share | 32 | **13.6** | 12.0 |

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

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|---|
| Profit for the year | | **15,614** | 12,682 |
| Other comprehensive income, net of income tax | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | 24(a) | **(8)** | (109) |
| Other comprehensive income for the year, net of income tax | | **(8)** | (109) |
| Total comprehensive income for the year | | **15,606** | 12,573 |
| Total comprehensive income for the year is attributable to: | | | |
| Equity holders of Collection House Limited | | **15,606** | 12,573 |
| | | **15,606** | 12,573 |

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

# BALANCE SHEET
## AS AT 30 JUNE 2013

| | Notes | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **2,400** | 296 |
| Receivables | 8 | **7,693** | 7,719 |
| Other financial assets at fair value through profit or loss | 9 | **46,315** | 42,866 |
| Other current assets | 10 | **77** | 333 |
| Total current assets | | **56,485** | 51,214 |
| **Non-current assets** | | | |
| Other financial assets at fair value through profit or loss | 9 | **150,136** | 142,301 |
| Property, plant and equipment | 11 | **4,705** | 5,198 |
| Intangible assets | 13 | **28,252** | 23,898 |
| Total non-current assets | | **183,093** | 171,397 |
| **Total assets** | | **239,578** | 222,611 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | 14 | **11,513** | 8,934 |
| Borrowings | 15 | **-** | 2,810 |
| Current tax liabilities | | **7,396** | 6,035 |
| Provisions | 16 | **2,850** | 2,379 |
| Other current financial liabilities | 17 | **276** | - |
| Total current liabilities | | **22,035** | 20,158 |
| **Non-current liabilities** | | | |
| Borrowings | 18 | **89,400** | 85,100 |
| Provisions | 20 | **361** | 307 |
| Deferred tax liabilities | 19 | **4,221** | 7,876 |
| Other non-current financial liabilities | 22 | **294** | - |
| Total non-current liabilities | | **94,276** | 93,283 |
| **Total liabilities** | | **116,311** | 113,441 |
| **Net assets** | | **123,267** | 109,170 |
| **EQUITY** | | | |
| Contributed equity | 23 | **80,095** | 74,324 |
| Reserves | 24(a) | **489** | 147 |
| Retained profits | 24(b) | **42,683** | 34,699 |
| **Total equity** | | **123,267** | 109,170 |

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

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2013

| | | ATTRIBUTABLE TO MEMBERS OF COLLECTION HOUSE LIMITED | | | |
|---|---|---|---|---|---|
| Consolidated | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
| **Balance at 1 July 2011** | | **67,256** | **106** | **28,502** | **95,864** |
| Profit for the year | | - | - | 12,682 | 12,682 |
| Other comprehensive income | | - | (109) | - | (109) |
| **Total comprehensive income for the year** | | **-** | **(109)** | **12,682** | **12,573** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity net of transaction costs | 23 | 7,068 | - | - | 7,068 |
| Dividends provided for or paid | 25 | - | - | (6,485) | (6,485) |
| Employee share options – value of employee services | 24 | - | 150 | - | 150 |
| | | 7,068 | 150 | (6,485) | 733 |
| **Balance at 30 June 2012** | | **74,324** | **147** | **34,699** | **109,170** |
| **Balance at 1 July 2012** | | **74,324** | **147** | **34,699** | **109,170** |
| Profit for the year | | - | - | 15,614 | 15,614 |
| Other comprehensive income | | - | (8) | - | (8) |
| **Total comprehensive income for the year** | | **-** | **(8)** | **15,614** | **15,606** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity net of transaction costs | 23 | 5,771 | - | - | 5,771 |
| Dividends provided for or paid | 25 | - | - | (7,630) | (7,630) |
| Employee share options – value of employee services | 24 | - | 350 | - | 350 |
| | | 5,771 | 350 | (7,630) | (1,509) |
| **Balance at 30 June 2013** | | **80,095** | **489** | **42,683** | **123,267** |

*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 2013

| | Notes | CONSOLIDATED 30 June 2013 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **138,803** | 128,680 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(67,615)** | (63,684) |
| | | **71,188** | 64,996 |
| Interest received | | **26** | 74 |
| Income taxes paid | | **(9,010)** | (7,744) |
| Net cash inflow (outflow) from operating activities | 35 | **62,204** | 57,326 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(395)** | (446) |
| Payments for leasehold improvements | | **(67)** | (15) |
| Payments for other financial assets at fair value through profit or loss | | **(50,623)** | (61,007) |
| Proceeds from sale of other financial assets at fair value through profit or loss | | **2,205** | 533 |
| Payments for intangible assets | | **(4,031)** | (1,693) |
| **Net cash (outflow) inflow from investing activities** | | **(52,911)** | (62,628) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 18 | **10,000** | 11,195 |
| Repayment of borrowings | 18 | **(5,700)** | - |
| Borrowing costs | | **(1,718)** | (1,623) |
| Interest paid | | **(4,625)** | (4,890) |
| Dividends paid to company's shareholders | 25 | **(7,630)** | (6,485) |
| Proceeds from issues of shares and other equity securities | | **5,246** | 7,068 |
| **Net cash (outflow) inflow from financing activities** | | **(4,427)** | 5,265 |
| **Net increase (decrease) in cash and cash equivalents** | | **4,866** | (37) |
| Cash and cash equivalents at the beginning of the financial year | | **(2,514)** | (2,456) |
| Effects of exchange rate changes on cash and cash equivalents | | **48** | (21) |
| **Cash and cash equivalents at end of year** | 7 | **2,400** | (2,514) |

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

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (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 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to *AASB101 Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the line items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

#### *(iii) Early adoption of standards*

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2012:

- 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.

### (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 2013 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.

### (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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that 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.

#### *(ii) Rendering of services – commission revenue*

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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Revenue recognition (continued)

*(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)

TOFA became 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 of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 17 and 22). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other current financial liabilities and other non-current financial liabilities. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29). 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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment of assets (continued)

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 cash flow statement, 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.

### (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 uncollectible 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 uncollectible 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 cashflows 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 derecognition**

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 derecognised 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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Other financial assets (continued)

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.

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.

### (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 is 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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 every six months, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. 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.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Provisions (continued)

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.

### (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 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 33.

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.

Performance Rights compensation benefits are provided to key employees via the Collection House Performance Rights Plan (PRP). The fair value of the performance rights granted under the PRP was independently determined. The fair value at grant date has been calculated using the five day volume weighted average price (VWAP). The expense is recognised over the vesting period. The expense for each relevant financial year will require an assessment at each reporting date of the probability that each performance hurdle will be achieved. This probability factor will then be multiplied by the total number of rights apportioned to each performance hurdle to determine the number used in calculating the charge to profit and loss. Further details are set out in note 33.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Employee benefits (continued)

*(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 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 32).

*(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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

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)

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aa) New accounting standards and interpretations (continued)

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

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

(v) AASB 2012-4 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* (effective 1 January 2013)

(vi) AASB 2012-3 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and AASB 2012-2 Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)

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.

The Group is currently evaluating the impact of the new standards; however they are not expected to have a material impact on the Group.

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.

### (ab) Parent entity financial information

The financial information for the parent entity, Collection House Limited, disclosed in note 36 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.

#### *(iii) Financial guarantees*

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

## 2 FINANCIAL RISK MANAGEMENT

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

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

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

### (a) Market risk

#### *(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NZ dollar and the Philippine Peso. 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 2013, had the Australian Dollar weakened/strengthened by 10% against the NZ Dollar or the Philippine Peso 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, if the borrowings are carried at fair value. During 2013 and 2012, 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 $26m 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 $25.9m at a fixed rate of 4.20% per annum effective as at 19 October 2011 and continuing until 21 October 2013. On 17 September 2012, the Company confirmed an interest rate swap transaction for an amount of $15m at a fixed rate of 3.02% per annum effective as at 7 September 2012 and continuing until 7 September 2015. On 21 September 2012, the Company confirmed an interest rate swap transaction for an amount of $14.5m at a fixed rate of 2.86% per annum as at 21 September 2012 and continuing until 21 September 2015.

## 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Market risk (continued)

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

| | 30 JUNE 2013 | | 30 JUNE 2012 | |
|---|---|---|---|---|
| Consolidated | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| Bank overdrafts and bank loans | **4.3%** | **89,400** | 5.5% | 87,910 |
| Interest rate swaps (notional principal amount) | **4.7%** | **(81,400)** | 5.3% | (51,900) |
| Net exposure to cash flow interest rate risk | | **8,000** | | 36,010 |

**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 2013, 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 $15,000 lower/higher (2012 – change of 25 bps: $63,000 lower/higher), mainly as a result of higher/lower interest expense from net borrowings. Other components of equity would have been $15,000 lower/higher (2012 – $63,000 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.

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| | | -25 bps | | +25 bps | |
| Consolidated 30 June 2013 | Carrying amount $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| Financial liabilities | 570 | 1 | 1 | (1) | (1) |
| Borrowings | 8,000 | 14 | 14 | (14) | (14) |
| **Total increase/(decrease) in financial liabilities** | | 15 | 15 | (15) | (15) |
| **Total increase/(decrease)** | | 15 | 15 | (15) | (15) |

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| | | -25 bps | | +25 bps | |
| Consolidated 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 liabilities | | 63 | 63 | (63) | (63) |
| Total increase/(decrease) | | 63 | 63 | (63) | (63) |

## 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 services are made to customers with an appropriate credit history.

**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. Cashflow 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 $115,000,000 Multiple Option Facility throughout the year (2012: $100,000,000). The facility, which was renewed in December 2012, was subject to meeting a number of financial undertakings. The undertakings were comfortably met at all times during both the current and prior years. The facility was replaced with a $115,000,000 Multiple Option Facility which expires on 1 July 2016. The new facility is principally 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 $115,000,000 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 bi-annually. 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 18.

## 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (continued)

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.

| Contractual maturities of financial liabilities At 30 June 2013 | Less than 6 months $'000 | 6–12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Non-interest bearing | 11,513 | - | - | - | - | 11,513 | - |
| Variable rate | - | - | 570 | 89,400 | - | 89,970 | - |
| **Total non-derivatives** | 11,513 | - | 570 | 89,400 | - | 101,483 | - |

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

### (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 profit or loss as disclosed in the balance sheet represent investments in purchased 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.

## 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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 Group on a commission basis.

Due to contractual restrictions on the Group'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 Group can participate.

*Initial recognition value*

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

1. The Face Value of the debt being purchased

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

2. The expected Recovery Rate of the debt being purchased

The expected recovery rate is the percentage of the face value of a debt that is expected to be recovered as a result of collection activity, and is based upon the Group'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 Group 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 2013 are set out in note 9.

## 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

*Summarised sensitivity analysis*

The following table summarises the sensitivity of the Group's financial assets at Fair Value through profit or 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 2.79% (2012: 2.63%).

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.

| | | Recoverability | | | |
|---|---|---|---|---|---|
| | | -2.79% | | +2.79% | |
| Consolidated<br>30 June 2013 | Carrying amount $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **Financial assets** | | | | | |
| Financial assets at FVTPL | 196,451 | (1,031) | (1,031) | 1,031 | 1,031 |
| **Total increase/(decrease) in financial assets** | | (1,031) | (1,031) | 1,031 | 1,031 |
| **Total increase/(decrease)** | | (1,031) | (1,031) | 1,031 | 1,031 |

| | | Recoverability | | | |
|---|---|---|---|---|---|
| | | -2.63% | | +2.63% | |
| Consolidated<br>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 |

### (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 2013, the Group has entered into four 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.

#### *(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 fair value requires the use of assumptions.

#### *(iv) Performance rights*

The Group determines the amount to be posted to the share-based payments reserve based on management's best estimate of employees meeting their performance hurdles. The value of performance rights could change if the number of employees that meet their performance hurdles differs significantly from management's estimate.

### (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: Collection Services, and Purchased Debt Ledgers.

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.

*Collection Services*
The earning of commissions on the collection of debts for clients.

*Purchased Debt Ledgers*
The collection of debts from client ledgers acquired by the Group.

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

| 2013 | Collection services $'000 | Purchased debt ledgers $'000 | Intersegment eliminations/ unallocated $'000 | Total continuing operations $'000 | Discontinued operations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| Segment revenue | | | | | | |
| Sales to external customers | 39,035 | - | - | 39,035 | - | 39,035 |
| Inter-segment sales | 744 | - | - | 744 | - | 744 |
| Total sales revenue | 39,779 | - | - | 39,779 | - | 39,779 |
| Collections of Purchased Debt Ledgers | - | 96,711 | - | 96,711 | - | 96,711 |
| Fair Value movement on Purchased Debt ledgers | - | (38,780) | - | (38,780) | - | (38,780) |
| Net gain on financial assets | - | 57,931 | - | 57,931 | - | 57,931 |
| **Total segment revenue** | **39,779** | **57,931** | **-** | **97,710** | **-** | **97,710** |
| Inter-segment elimination | | | | (404) | - | (404) |
| **Consolidated revenue** | | | | **97,306** | **-** | **97,306** |
| Segment result | | | | | | |
| Segment result | **7,161** | **25,145** | **-** | **32,306** | **-** | **32,306** |
| Interest expense and borrowing costs | | | | (6,164) | - | (6,164) |
| Unallocated revenue less unallocated expenses | | | | (3,811) | - | (3,811) |
| Profit before income tax | | | | 22,331 | - | 22,331 |
| Income tax expense | | | | (6,717) | - | (6,717) |
| Profit for the year | | | | **15,614** | **-** | **15,614** |
| Segment assets and liabilities | | | | | | |
| **Segment assets** | **140,142** | **202,533** | **(103,097)** | **239,578** | **-** | **239,578** |
| Unallocated assets | | | - | - | - | |
| **Total assets** | | | | **239,578** | **-** | **239,578** |
| Segment liabilities | **14,986** | **107,197** | **(106,888)** | 15,295 | - | 15,295 |
| Unallocated liabilities | | | | 101,016 | - | 101,016 |
| **Total liabilities** | | | | 116,311 | - | 116,311 |
| Other segment information | | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 4,668 | 52,528 | - | 57,196 | - | 57,196 |
| Total acquisitions | | | | 57,196 | - | 57,196 |
| Depreciation and amortisation expense | 1,049 | 466 | 212 | 1,727 | - | 1,727 |
| Total depreciation and amortisation | | | | 1,727 | - | 1,727 |
| Other non-cash expenses | 249 | 39,303 | 507 | 40,059 | - | 40,059 |

## 4 SEGMENT INFORMATION (CONTINUED)

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

| 2012 | Collection services $'000 | Purchased debt ledgers $'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 |
| Inter-segment 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 |
| Inter-segment elimination | | | | (276) | - | (276) |
| **Consolidated revenue** | | | | 89,139 | - | 89,139 |
| **Segment result** | | | | | | |
| **Segment result** | 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)

### (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 2013 $'000 | 30 June 2012 $'000 | 30 June 2013 $'000 | 30 June 2012 $'000 | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Australia | **92,457** | 83,766 | **228,270** | 211,202 | **55,911** | 63,041 |
| New Zealand | **4,509** | 4,940 | **11,204** | 11,409 | **1,285** | 1,007 |
| Philippines | **-** | - | **104** | - | **-** | - |
| | **96,966** | 88,706 | **239,578** | 222,611 | **57,196** | 64,048 |

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, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and interest bearing liabilities. Segment assets and liabilities do not include income taxes.

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

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

#### *(ii) Segment margins*

| | COLLECTION SERVICES | | PURCHASED DEBT LEDGERS | |
|---|---|---|---|---|
| | 30 June 2013 % | 30 June 2012 % | 30 June 2013 % | 30 June 2012 % |
| Margin on segment revenue | 18 | 16 | 43 | 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 2013 $'000 | 30 June 2012 $'000 |
| **Profit before income tax includes the following specific expenses:** | | |
| *Depreciation* | | |
| Leasehold improvements, plant and equipment | **1,168** | 1,344 |
| Total depreciation | **1,168** | 1,344 |
| *Amortisation* | | |
| Computer software | **500** | 542 |
| Other intangibles | **-** | 69 |
| Stamp Duty | **281** | 187 |
| Total amortisation | **781** | 798 |
| Total depreciation and amortisation | **1,949** | 2,142 |
| *Finance expenses* | | |
| Interest and finance charges paid/payable | **6,400** | 6,365 |
| Amount capitalised (a) | **(236)** | (186) |
| Finance costs expensed | **6,164** | 6,179 |
| *Fair Value losses on other financial assets* | **38,780** | 37,344 |
| | **38,780** | 37,344 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | **4,386** | 3,775 |
| Total rental expense relating to operating leases | **4,386** | 3,775 |

### (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 4.9% (2012: 5.5%).

## 6 INCOME TAX EXPENSE

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **(a) Income tax expense** | | |
| Income tax expense Profit – from continuing operations | **6,717** | 5,067 |
| Income tax expense is attributable to: | | |
| Current tax | **11,057** | 9,377 |
| Deferred tax | **(3,655)** | (2,941) |
| Under (over) provided in previous years | **(685)** | (1,369) |
| Aggregate income tax expense | **6,717** | 5,067 |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | |
| Decrease (increase) in deferred tax assets (note 12) | **50** | (123) |
| (Decrease) increase in deferred tax liabilities (note 19) | **(3,705)** | (2,783) |
| Reduction in tax rate | **-** | (35) |
| | **(3,655)** | (2,941) |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | **22,331** | 17,749 |
| Profit from discontinuing operations before income tax expense | **-** | - |
| Tax at the Australian tax rate of 30% (2012 –30%) | **6,699** | 5,325 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible expenses | **145** | 90 |
| Effect of tax rates in foreign jurisdictions | **11** | 3 |
| Tax exempt income/loss | **11** | 65 |
| Change in recognised temporary differences | **-** | (35) |
| | **6,866** | 5,448 |
| Adjustments for current tax of prior periods | **(149)** | (381) |
| | **(149)** | (381) |
| Income tax expense | **6,717** | 5,067 |

## 7 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Cash at bank and in hand | **2,400** | 296 |
| | **2,400** | 296 |

### (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 statement of cash flows as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Bank overdraft right of set-off | | |
| Balances as above | **2,400** | 296 |
| Bank overdrafts (note 15) | **-** | (2,810) |
| Balances per statement of cash flows | **2,400** | (2,514) |

### (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 2013 $'000 | 30 June 2012 $'000 |
| **Net trade receivables** | | |
| Trade receivables | **4,157** | 3,776 |
| Provision for impairment of receivables (a) | **(102)** | (93) |
| | **4,055** | 3,683 |
| | | |
| Other receivables(c) | **2,561** | 3,115 |
| Prepaid expenses | **1,077** | 921 |
| | **7,693** | 7,719 |

## 8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

### (a) Impaired trade receivables

As at 30 June 2013 current trade receivables of the Group with a nominal value of $261,000 (2012–$210,000) were impaired. The amount of the provision was $102,000 (2012–$93,000). 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 2013 $'000 | 30 June 2012 $'000 |
| 1 to 3 months | **-** | - |
| Over 3 months | **261** | 210 |
| | **261** | 210 |

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

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| At 1 July | **93** | 172 |
| Provision for impairment recognised during the year | **181** | 9 |
| Receivables written off during the year as uncollectible | **(70)** | (78) |
| Unused amount reversed | **(102)** | (10) |
| | **102** | 93 |

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.

## 8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

### (b) Past due but not impaired

As of 30 June 2013, trade receivables of the Group of $1,851,000 (2012–$1,321,000) 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 2013 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 2013 $'000 | 30 June 2012 $'000 |
| Up to 3 months | **1,805** | 1,134 |
| Over 3 months | **46** | 187 |
| | **1,851** | 1,321 |

### (c) Other receivables

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

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

Information about the Group'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.

### (f) Risk exposure

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 2013. 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 2013 $'000 | 30 June 2012 $'000 |
| **Current and Non-Current** | | |
| At beginning of year | **185,167** | 162,037 |
| Net additions* | **50,064** | 60,474 |
| Collections disclosed in profit | **(96,711)** | (88,726) |
| Fair value gain/(loss) disclosed in profit | **57,931** | 51,382 |
| At end of year | **196,451** | 185,167 |

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Other Financial Assets at fair value through profit or loss | **196,451** | 185,167 |
| | **196,451** | 185,167 |

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

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Current | **46,315** | 42,866 |
| Non-Current | **150,136** | 142,301 |
| | **196,451** | 185,167 |

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

* Net additions are represented by total additions for the year of $52,269,000, less $2,205,000 (2012: $533,000) in relation to incidental disposals of other financial assets.

### (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 2013 $'000 | 30 June 2012 $'000 |
| Other deposits | **42** | 15 |
| Legal and court costs capitalised – net | **35** | 318 |
| | **77** | 333 |

## 11 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Plant and equipment $'000 | Leasehold improvements $'000 | Leased plant & equipment $'000 | Work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 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 |
| **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 |

| | Plant and equipment $'000 | Leasehold improvements $'000 | Leased plant & equipment $'000 | Work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year 30 June 2013** | | | | | |
| Opening net book amount | 2,544 | 2,489 | - | 165 | 5,198 |
| Additions | 53 | 65 | - | 622 | 740 |
| Disposals | (13) | (52) | - | - | (65) |
| Depreciation charge | (821) | (347) | - | - | (1,168) |
| Transfers | 56 | 218 | - | (274) | - |
| Closing net book amount | 1,819 | 2,373 | - | 513 | 4,705 |
| **At 30 June 2013** | | | | | |
| Cost or fair value | 6,962 | 3,892 | - | 513 | 11,367 |
| Accumulated depreciation | (5,143) | (1,519) | - | - | (6,662) |
| Net book amount | 1,819 | 2,373 | - | 513 | 4,705 |

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

Refer to note 18 for information on non-current assets pledged as security by the Group.

## 12 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Tax losses | **192** | 274 |
| Accruals | **277** | 362 |
| Future deductible windup costs | **16** | 48 |
| Doubtful debts | **31** | 28 |
| Provisions and employee benefits | **1,027** | 867 |
| Sundry | **15** | 29 |
| | **1,558** | 1,608 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 19) | **(1,558)** | (1,608) |
| Net deferred tax assets | **-** | - |
| **Movements:** | | |
| Opening balance at 1 July | **1,608** | 1,498 |
| Change in tax rate | **-** | (13) |
| Credited/(charged) to the income statement (note 6) | **(50)** | 123 |
| Closing balance at 30 June | **1,558** | 1,608 |

| Movements – Consolidated | Tax losses $'000 | Employee benefits $'000 | Doubtful Debts $'000 | Receivables impairment & accruals $'000 | Future deductible windup costs $'000 | Sundry $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **At 1 July 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 |

| Movements – Consolidated | Tax losses $'000 | Employee benefits $'000 | Doubtful Debts $'000 | Receivables impairment & accruals $'000 | Future deductible windup costs $'000 | Sundry $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **At 30 June 2012** | 274 | 867 | 28 | 362 | 48 | 29 | 1,608 |
| - to profit or loss | (82) | 160 | 3 | (85) | (32) | (14) | (50) |
| At 30 June 2013 | 192 | 1,027 | 31 | 277 | 16 | 15 | 1,558 |

## 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 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 |
| **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 |

| | Goodwill $'000 | Computer software $'000 | Other intangible assets $'000 | Work-in-progress – Cost* $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2013** | | | | | |
| Opening net book amount | 18,541 | 1,299 | - | 4,058 | 23,898 |
| Exchange differences | 12 | - | - | - | 12 |
| Acquisition of business | 915 | - | - | - | 915 |
| Additions – internal development | - | 92 | - | 3,835 | 3,927 |
| Amortisation charge | - | (500) | - | - | (500) |
| Disposals | - | - | - | - | - |
| Transfers | - | 223 | - | (223) | - |
| Closing net book amount | 19,468 | 1,114 | - | 7,670 | 28,252 |
| **At 30 June 2013** | | | | | |
| Cost | 23,231 | 8,062 | - | 7,670 | 38,963 |
| Accumulated amortisation and impairment | (3,763) | (6,948) | - | - | (10,711) |
| Net book amount | 19,468 | 1,114 | - | 7,670 | 28,252 |

** 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.

| 2013 | Collection services $'000 | Purchased debt ledgers $'000 | Total $'000 |
|---|---|---|---|
| Goodwill | 19,468 | - | 19,468 |
| | 19,468 | - | 19,468 |

| 2012 | Collection services $'000 | Purchased debt ledgers $'000 | Total $'000 |
|---|---|---|---|
| Goodwill | 18,541 | - | 18,541 |
| | 18,541 | - | 18,541 |

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 Purchased debt ledgers CGU, therefore no further analysis of this segment is required.

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

| | Growth rate (revenue)* | | Growth rate (expenses) ** | | Discount rate *** | |
|---|---|---|---|---|---|---|
| CGU | 30 June 2013 % | 30 June 2012 % | 30 June 2013 % | 30 June 2012 % | 30 June 2013 % | 30 June 2012 % |
| Collection services | **5.00** | - | **3.00** | 2.50 | **12.50** | 4.00 |

* Revenue growth has been set at 5% for the period of the calculation.

** 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 weighted average cost of capital to discount the forecast future attributable pre-tax cash flows.

### (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 (2012: Nil).

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

*Collection services*

There is a substantial margin between the calculated Value-in-use and the carrying value of all assets within the CGU. If the risk-free rate used in the value-in-use calculation had been 22.5% at 30 June 2013 rather than 12.5%, 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.

## 13 NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

If the estimated revenue growth is increased to 10.00% and expenses growth held at 3.00%, 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 3.00%, 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 2013 $'000 | 30 June 2012 $'000 |
| Trade payables | **2,854** | 2,613 |
| Other payables | **8,659** | 6,321 |
| | **11,513** | 8,934 |

### (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 2013 $'000 | 30 June 2012 $'000 |
| Secured | | |
| Bank overdraft | | |
| Total secured current borrowings | **-** | 2,810 |
| | **-** | 2,810 |
| Total current borrowings | **-** | 2,810 |

Further information relating to Borrowings is set out in note 18.

## 16 CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Employee benefits | **2,814** | 2,354 |
| Other | **36** | 25 |
| | **2,850** | 2,379 |

### (a) Movements in provisions

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

| | Other $'000 |
|---|---|
| 2013 | |
| Current | |
| Carrying amount at start of year | 25 |
| - additional provisions recognised | 134 |
| - payments/other sacrifices of economic benefits | (123) |
| Carrying amount at end of year | 36 |
| | |
| 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 |

## 17 OTHER CURRENT FINANCIAL LIABILITIES

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Other current financial liabilities | **276** | - |
| | **276** | - |

## 18 NON-CURRENT LIABILITIES – BORROWINGS

| | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|
| **Secured** | | |
| Secured – Bank loans | **89,400** | 85,100 |
| Total secured non-current borrowings | **89,400** | 85,100 |
| | | |
| **Unsecured** | | |
| Total unsecured non-current borrowings | **-** | - |
| | | |
| Total non-current borrowings | **89,400** | 85,100 |

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

| | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|
| The total secured liabilities (current and non-current) are as follows: | | |
| Bank overdrafts and bank loans | **89,400** | 87,910 |
| Total secured liabilities | **89,400** | 87,910 |

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:

| | Notes | CONSOLIDATED 30 June 2013 $'000 | CONSOLIDATED 30 June 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| *Floating charge* | | | |
| Cash and cash equivalents | 7 | **2,400** | 296 |
| Receivables | 8 | **7,693** | 7,719 |
| Financial assets at fair value through profit or loss | 9 | **46,315** | 42,866 |
| Total current assets pledged as security | | **56,408** | 50,881 |
| | | | |
| **Non-current** | | | |
| *Floating charge* | | | |
| Financial assets at fair value through profit or loss | 9 | **150,136** | 142,301 |
| Plant and equipment | 11 | **4,705** | 5,198 |
| Total non-current assets pledged as security | | **154,841** | 147,499 |
| | | | |
| Total assets pledged as security | | **211,249** | 198,380 |

## 18 NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED)

### (b) Fair value

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

| | AT 30 JUNE 2013 | | AT 30 JUNE 2012 | |
|---|---|---|---|---|
| Group | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| On-balance sheet (i) | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank overdrafts | **-** | **-** | 2,810 | 2,810 |
| Bank loans | **89,400** | **89,400** | 85,100 | 85,100 |
| | **89,400** | **89,400** | 87,910 | 87,910 |

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 $26m 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 $25.9m at a fixed rate of 4.20% per annum effective as at 19 October 2011 and continuing until 21 October 2013. On 17 September 2012, the Company confirmed an interest rate swap transaction for an amount of $15m at a fixed rate of 3.02% per annum effective as at 7 September 2012 and continuing until 7 September 2015. On 21 September 2012, the Company confirmed an interest rate swap transaction for an amount of $14.5m at a fixed rate of 2.86% per annum effective as at 21 September 2012 and continuing until 21 September 2015.

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.

## 19 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Prepayments | **3** | 7 |
| Purchased debt | **4,353** | 8,185 |
| Fixed Assets | **1,418** | 1,214 |
| Sundry | **5** | 78 |
| | **5,779** | 9,484 |
| Total deferred tax liabilities | **5,779** | 9,484 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 12) | **(1,558)** | (1,608) |
| Net deferred tax liabilities | **4,221** | 7,876 |
| **Movements:** | | |
| Opening balance at 1 July | **9,484** | 12,315 |
| Change in tax rate | **-** | (48) |
| Charged/(credited) to the income statement (note 6) | **(3,705)** | (2,783) |
| Closing balance at 30 June | **5,779** | 9,484 |

| Movements-Consolidated | Property, plant and equipment $'000 | Prepayments $'000 | Purchased debt $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 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 |
| At 30 June 2012 | 1,214 | 7 | 8,185 | 78 | 9,484 |
| - to profit or loss | 204 | (4) | (3,832) | (73) | (3,705) |
| At 30 June 2013 | 1,418 | 3 | 4,353 | 5 | 5,779 |

## 20 NON-CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Provisions – Employee benefits | **361** | 307 |
| | **361** | 307 |

## 21 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.

## 22 OTHER NON-CURRENT FINANCIAL LIABILITIES

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Total other non-current financial liabilities | **294** | - |
| | **294** | - |

## 23 CONTRIBUTED EQUITY

| | COMPANY | | COMPANY | |
|---|---|---|---|---|
| | 2013 Shares | 2012 Shares | 2013 $'000 | 2012 $'000 |
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | **115,437,740** | 108,159,097 | **80,095** | 74,324 |
| | **115,437,740** | 108,159,097 | **80,095** | 74,324 |
| Total contributed equity | | | **80,095** | 74,324 |

## 23 CONTRIBUTED EQUITY (CONTINUED)

### (b) Movements in ordinary share capital

Issues of ordinary shares during the year

| Date | Details | Number of shares | $'000 |
|---|---|---|---|
| 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 |
| | | | |
| 1 July 2012 | Opening balance | 108,159,097 | 74,324 |
| 27 July 2012 | Employee options exercised | 7,500 | 4 |
| 28 August 2012 | Employee options exercised | 135,000 | 66 |
| 31 August 2012 | Employee options exercised | 120,000 | 59 |
| 31 August 2012 | Employee options exercised | 90,000 | 44 |
| 10 September 2012 | Employee options exercised | 90,000 | 45 |
| 10 September 2012 | Employee options exercised | 45,000 | 22 |
| 18 September 2012 | Employee options exercised | 400,000 | 197 |
| 24 September 2012 | Employee options exercised | 30,000 | 15 |
| 19 October 2012 | Dividend reinvestment plan issues | 747,046 | 695 |
| 19 October 2012 | Share issue | 1,676,153 | 1,559 |
| 1 November 2012 | Employee options exercised | 5,000 | 2 |
| | Less: Transaction costs arising on share issue | - | (125) |
| 16 January 2013 | Employee options exercised | 25,000 | 12 |
| 12 February 2013 | Employee options exercised | 400,000 | 197 |
| 14 February 2013 | Share Issue | 371,024 | 525 |
| 18 February 2013 | Employee options exercised | 133,600 | 84 |
| 22 February 2013 | Employee options exercised | 40,000 | 20 |
| 22 February 2013 | Employee options exercised | 40,000 | 20 |
| 26 February 2013 | Employee options exercised | 2,276,200 | 1,579 |
| 26 February 2013 | Employee options exercised | 75,000 | 37 |
| 1 March 2013 | Employee options exercised | 67,500 | 33 |
| 4 March 2013 | Employee options exercised | 60,000 | 30 |
| 14 March 2013 | Employee options exercised | 25,000 | 12 |
| 5 April 2013 | Dividend reinvestment plan issues | 407,120 | 642 |
| 19 June 2013 | Employee options exercised | 12,500 | 6 |
| | Less: Transaction costs arising on share issue | - | (9) |
| 30 June 2013 | Closing balance | 115,437,740 | 80,095 |

## 23 CONTRIBUTED EQUITY (CONTINUED)

### (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.

### (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 33.

### (f) Options and performance rights

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 33.

Information relating to the performance rights plan adopted as a means of rewarding and incentivising key employees, including details of rights issued during the financial year, is set out in note 33.

### (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 Group's projected growth plus a buffer.

As far as possible, asset purchases are funded from operational cashflow, allowing undrawn balances to be maintained. Cash is monitored on a daily basis to ensure that immediate and short-term requirements can be met. By maintaining a buffer of undrawn funds, the company reduces the risk of liquidity and going concern issues.

Management of mix between debt and equity impacts the Group's Cost of Capital and hence ability to provide returns to stakeholders, primarily the funding institutions and shareholders. The Group 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.

## 23 CONTRIBUTED EQUITY (CONTINUED)

### (g) Capital risk management (continued)

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 Group has comfortably met these covenant at all times during the year.

This strategy was followed during both the 2013 and 2012 financial years.

## 24 RESERVES AND RETAINED EARNINGS

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **(a) Reserves** | | |
| Share-based payments reserve | **1,771** | 1,421 |
| Foreign currency translation reserve | **(1,282)** | (1,274) |
| | **489** | 147 |

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Movements: | | |
| *Share-based payments reserve* | | |
| Balance 1 July | **1,421** | 1,271 |
| Option expense | **350** | 150 |
| Balance 30 June | **1,771** | 1,421 |

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Movements: | | |
| *Foreign currency translation reserve* | | |
| Balance 1 July | **(1,274)** | (1,165) |
| Currency translation differences arising during the year | **(8)** | (109) |
| Balance 30 June | **(1,282)** | (1,274) |

## 24 RESERVES AND RETAINED EARNINGS (CONTINUED)

### (b) Retained earnings

Movements in retained earnings were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Balance 1 July | **34,699** | 28,502 |
| Net profit for the year | **15,614** | 12,682 |
| Dividends | **(7,630)** | (6,485) |
| Balance 30 June | **42,683** | 34,699 |

### (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 and performance rights issued to employees that have not yet vested.

*(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.

## 25 DIVIDENDS

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **(a) Ordinary shares** | | |
| Fully franked final dividend for the year ended 30 June 2012 - 3.2 cents per share (2011: 3.1 cents) | **3,490** | 3,060 |
| Fully franked interim dividend for the year ended 30 June 2013 - 3.6 cents per share (2012: 3.2 cents) | **4,140** | 3,425 |
| | **7,630** | 6,485 |

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Dividends paid in cash during the years ended 30 June 2013 and 2012 were as follows: | | |
| Paid in cash | **6,293** | 4,776 |
| Satisfied under the Dividend Reinvestment Plan | **1,337** | 1,709 |
| | **7,630** | 6,485 |

## 25 DIVIDENDS (CONTINUED)

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **(b) Dividends not recognised at the end of the reporting period** | | |
| In addition to the above dividends, since year end the directors have recommended the payment of a fully franked final dividend of 3.6 cents per fully paid ordinary share (2012–3.2 cents, fully franked). The aggregate amount of the proposed dividend expected to be paid on 30 October 2013 out of retained profits and a positive net balance sheet at 30 June 2013, but not recognised as a liability at year end, is | **4,156** | 3,461 |
| | **4,156** | 3,461 |

### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 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 2014.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial reports.

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2012–30%) | **19,068** | 11,853 |
| | **19,068** | 11,853 |

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.

## 26 KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

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

*(i) Chairman – Non-executive director*

David Liddy

*(ii) Executive director – Managing Director and Chief Executive Officer*

Matthew Thomas (appointed Managing Director on 6 March 2013)

*(iii) Non-executive directors*

Dennis Punches
John Pearce
Tony Coutts
Kerry Daly
David 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:

| Name | Position | Entity |
|---|---|---|
| Adrian Ralston | Chief Financial Officer | Collection House Limited |
| Paul Freer | Chief Operating 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 |

With the exception of Paul Freer, who was appointed on 4 March 2013, all of the above persons were also key management persons during the year ended 30 June 2012.

### (c) Key management personnel compensation

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $ | 30 June 2012 $ |
| Short-term employee benefits | **2,548,948** | 1,877,996 |
| Post-employment benefits | **137,603** | 161,758 |
| Share-based payments | **277,171** | 150,516 |
| | **2,963,722** | 2,190,270 |

Detailed remuneration disclosures are provided in sections A-I of the remuneration report on pages 47 to 55.

## 26 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

*(i) Options provided as remuneration*

Details of options over ordinary shares in the Company provided as remuneration to each director of Collection House Limited and each of the 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 33.

*(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 H of the remuneration report.

*(iii) Option holdings*

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

| Name | Balance at start of the year | Granted as compensation | Exercised | Other changes* | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| 2013 | | | | | | | |
| **Executive Directors of Collection House Limited** | | | | | | | |
| Matthew Thomas | **1,579,000** | **-** | **(1,283,200)** | **-** | **295,800** | **-** | **295,800** |
| **Other key management personnel of the Group** | | | | | | | |
| Adrian Ralston | **791,000** | **-** | **(672,800)** | **-** | **118,200** | **-** | **118,200** |
| Paul Freer | **-** | **-** | | **-** | **-** | **-** | **-** |
| Michael Watkins | **668,000** | **-** | **(579,400)** | **-** | **88,600** | **-** | **88,600** |
| Kylie Lynam | **593,000** | **-** | **(504,400)** | **-** | **88,600** | **-** | **88,600** |
| **Former Director of Collection House Limited** | | | | | | | |
| Tony Aveling | **800,000** | **-** | **(800,000)** | **-** | **-** | **-** | **-** |
| 2012 | | | | | | | |
| **Other key management personnel of the Group** | | | | | | | |
| Matthew Thomas | 1,729,000 | - | (150,000) | - | 1,579,000 | - | 1,579,000 |
| Adrian Ralston | 791,000 | - | - | - | 791,000 | 120,000 | 671,000 |
| Michael Watkins | 668,000 | - | - | - | 668,000 | 135,000 | 533,000 |
| Kylie Lynam | 593,000 | - | - | | 593,000 | 90,000 | 503,000 |
| **Former Director of Collection House Limited** | | | | | | | |
| Tony Aveling | 2,000,000 | - | (1,200,000) | - | 800,000 | - | 800,000 |

*(iv) Performance rights provided as remuneration*

Details of performance rights over ordinary shares in the Company provided remuneration to each director of Collection House Limited and each of the three specified executives of the Company as set out below. When exercisable, each performance right is convertible into one ordinary share of Collection House Limited. Further information on the performance rights is set out in note 33.

## 26 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

| Name | Balance at start of the year | Issued as compensation | Exercised | Other changes* | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| 2013 | | | | | | | |
| **Executive Directors of Collection House Limited** | | | | | | | |
| Matthew Thomas | - | 628,119 | - | - | 628,119 | - | 628,119 |
| **Other key management personnel of the Group** | | | | | | | |
| Adrian Ralston | - | 62,812 | - | - | 62,812 | - | 62,812 |
| Paul Freer | - | 100,000 | - | - | 100,000 | - | 100,000 |
| Kylie Lynam | - | 62,812 | - | - | 62,812 | - | 62,812 |

* "Other changes" represent options which have expired. For further information regarding the expiry of options see note 33

*(v) 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.

| 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 |
|---|---|---|---|---|
| **2013** | | | | |
| ***Directors of Collection House Limited*** **Ordinary shares** | | | | |
| David Liddy | 58,000 | - | 42,000 | 100,000 |
| John Pearce | 11,895,190 | - | (2,737,351) | 9,157,839 |
| Dennis Punches | 19,452,535 | - | (5,000,000) | 14,452,535 |
| Tony Coutts | 4,821,665 | - | - | 4,821,665 |
| Kerry Daly | 308,844 | - | 71,156 | 380,000 |
| David Gray | 100,000 | - | 68,000 | 168,000 |
| ***Executive Director of Collection House Limited*** **Ordinary shares** | | | | |
| Matthew Thomas | 280,000 | 1,283,200 | (827,269) | 735,931 |
| ***Other key management personnel of the Group*** **Ordinary shares** | | | | |
| Adrian Ralston | - | 672,800 | (472,800) | 200,000 |
| Paul Freer | - | - | - | - |
| Michael Watkins | 25,000 | 579,400 | (429,400) | 175,000 |
| Kylie Lynam | 6,000 | 504,400 | (444,400) | 66,000 |

## 26 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

| 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 |
|---|---|---|---|---|
| 2012 | | | | |
| ***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 (appointed 28 June 2011) | - | - | 100,000 | 100,000 |
| ***Other key management personnel of the Group*** **Ordinary shares** | | | | |
| Matthew Thomas | 130,000 | 150,000 | - | 280,000 |
| Adrian Ralston | - | - | - | - |
| Michael Watkins | 25,000 | - | - | 25,000 |
| Kylie Lynam | 6,000 | - | - | 6,000 |

* for Bill Kagel, balance at date of retirement, 28 October 2011.

### (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.

*(i) Aggregates for key management personnel*

| 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 $ |
|---|---|---|---|---|---|
| 2013 | **-** | **-** | **-** | **-** | **-** |
| 2012 | - | - | - | - | - |

*(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 2013, 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.

## 27 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 2013 $ | 30 June 2012 $ |
| **(a) Lawler Hacketts Audit** | | |
| *Audit services* | | |
| Audit and review of financial reports | **144,500** | 137,200 |
| Audit-related services | **85,500** | 85,500 |
| **Total auditors' remuneration** | **230,000** | 222,700 |
| | | |
| **(b) Non Lawler Hacketts Audit audit firms** | | |
| *Audit services* | | |
| Audit and review of financial reports | **1,209** | - |
| **Total auditors' remuneration** | **1,209** | - |

## 28 CONTINGENCIES

### (a) Contingent liabilities

The Group had contingent liabilities at 30 June 2013 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 $1,568,888.17 (2012: $1,517,019.34). During the period, the Group replaced Bank Guarantees to secure our continued performance in the normal course of business resulting in the increase. On 22 July 2013, the Company entered into a new Lease Agreement for its new Adelaide office under which, a new Bank Guarantee was required to secure performance of that Adelaide Lease premises. The Company has secured a Bank Guarantee in the amount of $171,016.22 to secure the performance of the Company's obligations under the Lease Agreement for the new Adelaide premises. This additional Bank Guarantee will increase the Group Bank Guarantee's to $1,739,904.39.

(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.

## 29 COMMITMENTS

### (a) Capital commitments

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

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Other financial assets at fair value through profit or loss | **39,416** | 32,471 |
| | **39,416** | 32,471 |

### (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 2013 $'000 | 30 June 2012 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | **4,175** | 3,790 |
| Later than one year but not later than five years | **10,927** | 11,480 |
| Later than five years | **594** | 656 |
| | **15,696** | 15,926 |

### (c) Non-cancellable finance leases

During the year, the Group leased two items of plant and equipment and intangibles with a carrying amount of $808,000 (2012 - Nil) under finance leases expiring within three years.

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows: | | |
| Within one year | **302** | - |
| Later than one year but not later than five years | **302** | - |
| Later than five years | **-** | - |
| Minimum lease payments | **604** | - |
| Less Future finance charges | **(34)** | - |
| Recognised as a liability | **570** | - |

## 30 RELATED PARTY TRANSACTIONS

### (a) Group companies

Details of the parent company, the ultimate parent company and interests in subsidiaries are set out in note 31.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

### (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.

## 31 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):

| | 2013 % | 2012 % |
|---|---|---|
| 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 CreditCollect Pty Ltd (formerly Midstate Credit Management Services Pty Ltd) | **100** | 100 |
| PH Collections (Australasia) Pty Ltd | **100** | 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** | 100 |

* Collection House International BPO, Inc started up on 10 May 2012 and commenced business operations on 1 April 2013. While Collection House Limited holds legal and beneficial ownership of 9,995 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.

### (a) Other acquisitions

Collection House acquired the commercial agency business of CreditCollect on 14 February 2013, via its subsidiary Midstate CreditCollect Pty Ltd (formerly Midstate Credit Management Services Pty Ltd). The agreement for sale of business calculates a possible aggregate purchase price of $4,077,500 including a contingent consideration component of $3,552,000 of which $122,500 has been paid at 30 June 2013. Under the provisional accounting options available in regards to business combinations, the Group is in the process of assessing the probability of this contingent consideration becoming payable. The remaining amount of $3,429,500 which is contingent on achieving EBIT targets is unable to be reliably measured at 30 June 2013, and as such no liability has been recorded in relation to this acquisition. The Group intends to finalise the acquisition accounting in relation to this transaction during the half-year ended 31 December 2013.

## 32 EARNINGS PER SHARE

| | CONSOLIDATED 30 June 2013 Cents | 30 June 2012 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the company | **13.7** | 12.1 |
| Total basic earnings per share attributable to the ordinary equity holders of the company | **13.7** | 12.1 |
| **(b) Diluted earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the company | **13.6** | 12.0 |
| Total diluted earnings per share attributable to the ordinary equity holders of the company | **13.6** | 12.0 |

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

| | CONSOLIDATED 30 June 2013 $'000 | 30 June 2012 $'000 |
|---|---|---|
| *Basic earnings per share* | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | **15,614** | 12,682 |
| | **15,614** | 12,682 |
| *Diluted earnings per share* | | |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | **15,614** | 12,682 |
| | **15,614** | 12,682 |

## 32 EARNINGS PER SHARE (CONTINUED)

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

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 Number | 30 June 2012 Number |
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | **113,656,553** | 105,052,905 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | **285,084** | 945,808 |
| Performance Rights | **734,226** | - |
| *Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share* | **114,675,863** | 105,998,713 |

### (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 33.

*(ii) Performance rights*

Performance rights issued to employees under the Performance Rights Plan (PRP) are considered to be potential ordinary shares and have been included at the probability rate of 57% in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per share. Details relating to the performance rights are set out in note 33.

## 33 SHARE-BASED PAYMENTS

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

In October 2008, the Shareholders approved the issue of 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 sent 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 (the Vesting Date was 25 June 2011). 100% of the 2,000,000 options have vested and 800,000 options were exercised during the year. A summary of these options is identified below.

| | Former 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:<br>(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.<br>(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.<br>(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 vested on the later of:<br>(a) 25 June 2011; and<br>(b) for each tranche of options, as follows:<br>A. In respect of the first tranche options, the date that the weighted average closing price shares over a 10 business day period (Qualifying Price) for the first tranche options (namely $0.60) was satisfied;<br>B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) was satisfied;<br>C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) was satisfied;<br>D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) was satisfied; and<br>E. In respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) was satisfied. | | |
| 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.

## 33 SHARE-BASED PAYMENTS (CONTINUED)

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

The resulting valuation per option was as follows:

| Tranche | Former MD/CEO |
|---|---|
| 1 | $0.153 |
| 2 | $0.152 |
| 3 | $0.151 |
| 4 | $0.148 |
| 5 | $0.146 |

### (b) Executive Share Option Plan

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 then MD/CEO issued 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 that Matthew Thomas, CEO was authorised, in the case of the other eligible employees, to offer Options to those eligible employees under ESOP2, at his 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 vest and be exercised.

| | EXEC2 OPTIONS | | | EXEC3 OPTIONS | | |
|---|---|---|---|---|---|---|
| Grant date | 18 July 2008 | | | 1 March 2011 | | |
| Earliest possible vesting date | 25 June 2011 | | | 23 December 2012 | | |
| Performance hurdles | Tranche | # of options | Hurdle Price | Tranche | # of options | Hurdle Price |
| | 1 | 287,500 | 0.60 | 1 | 591,200 | 1.00 |
| | 2 | 287,500 | 0.70 | 2 | 591,200 | 1.25 |
| | 3 | 287,500 | 0.80 | 3 | 1,182,400 | 1.50 |
| | 4 | 287,500 | 0.90 | 4 | 591,200 | 1.75 |
| | 5 | 287,500 | 1.00 | | | |

## 33 SHARE-BASED PAYMENTS (CONTINUED)

### (b) Executive Share Option Plan (continued)

| | EXEC2 OPTIONS | EXEC3 OPTIONS |
|---|---|---|
| Exercise conditions and Vesting Date | The options vested on the later of:<br>(a) 25 June 2011; and<br>(b) for each tranche of options, as follows:<br>A. In respect of the first tranche options, the date that the weighted average closing price shares over a 10 business day period (Qualifying Price) for the first tranche options (namely $0.60) was satisfied;<br>B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $0.70) was satisfied;<br>C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $0.80) was satisfied;<br>D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $0.90) was satisfied; and<br>E. In respect of the fifth tranche options, the Qualifying Price for the fifth tranche options (namely $1.00) was satisfied. | The options will vested on the later of:<br>(a) 23 December 2012; and<br>(b) for each tranche of options, as follows:<br>A. In respect of the first tranche options, the date that the weighted average closing price shares over a 10 business day period (Qualifying Price) for the first tranche options (namely $1.00) was satisfied;<br>B. In respect of the second tranche options, the Qualifying Price for the second tranche options (namely $1.25) was satisfied;<br>C. In respect of the third tranche options, the Qualifying Price for the third tranche options (namely $1.50) was satisfied; and<br>D. In respect of the fourth tranche options, the Qualifying Price for the fourth tranche options (namely $1.75) is satisfied. |
| Exercise price | $0.4927 per option | $0.6938 per option |

## 33 SHARE-BASED PAYMENTS (CONTINUED)

### (b) Executive Share Option Plan (continued)

| | EXEC2 OPTIONS | EXEC3 OPTIONS |
|---|---|---|
| Expiry date | 25 June 2013, subject to the following, in the event that:<br>(a) the eligible employee's employment ceases due to death, disablement, sickness or if the employment is terminated without cause, then the eligible employee shall be entitled to options granted prior to the date of cessation and for which the vesting date has occurred or which subsequently occurs, prior to the expiry date.<br>(b) the Company terminates the eligible employee's employment for poor performance (in the reasonable opinion of the Company), the eligible employee may only exercise within 12 months after the date of termination those options which have vested prior to the date of termination. All other options shall immediately lapse.<br>(c) the eligible employee resigns or has employment terminated for cause, the eligible employee may only exercise within 1 month of the date of termination those options which have vested prior to the date of termination or resignation. All other options shall immediately lapse. | The options will expire on:<br>(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<br>(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<br>(c) 23 December 2013. |
| 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 was 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 was/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 | |

## 33 SHARE-BASED PAYMENTS (CONTINUED)

### (b) Executive Share Option Plan (continued)

Set out below are summaries of options granted under the plan:

| Grant Date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Expired during the year Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| **Company – 2013** | | | | | | | | |
| 1 March 2011 | As stated above | $0.69 | 2,956,000 | - | 2,364,800 | - | 591,200 | - |
| 31 October 2008 | As stated above | $0.49 | 800,000 | - | 800,000 | - | - | - |
| 18 July 2008 | As stated above | $0.49 | 912,500 | - | 912,500 | - | - | - |
| Total | | | **4,668,500** | **-** | **4,077,300** | **-** | **591,200** | **-** |
| Weighted Average exercise price | | | $0.62 | - | $0.61 | - | $0.69 | |
| **Company – 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 | - | 172,500 | 190,000 | 912,500 | 430,000 |
| Total | | | **6,231,000** | **-** | **1,372,500** | **190,000** | **4,668,500** | **1,230,000** |
| Weighted Average exercise price | | | $0.58 | - | $0.49 | $0.49 | $0.62 | $0.49 |

The weighted average share price during the year ended 30 June 2013 was $1.34 (2012 - $0.77).

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.48 years (2012 – 1.30 years).

**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.

### (c) Performance Rights Plan

In line with the executive remuneration framework, the Board approved and adopted the Performance Rights Plan (PRP), effective on and from 1 July 2012, as a means of rewarding and incentivising its key employees.

The PRP was extended to the then Chief Executive Officer (CEO), now Managing Director and CEO and, at his discretion, to eligible employees.

During the reporting period ending 30 June 2013, 1,356,238 unlisted performance rights were issued to a number of eligible employees pursuant to the PRP. A summary of these performance rights is identified below as PR2013.

Future performance rights may be issued by the Board pursuant to the PRP. Such future performance rights will be subject to not only individual performance being considered, but also, Company performance hurdles being achieved before performance rights may vest at the discretion of the Board.

## 33 SHARE-BASED PAYMENTS (CONTINUED)

### (c) Performance Rights Plan (continued)

| | PR2013 | |
|---|---|---|
| Effective date | 1 July 2012[1] | |
| Earliest possible vesting date | The performance rights cannot vest earlier than the Test Date[2] | |
| Performance hurdles based on the satisfactory achievement of confidential performance conditions approved by the Board | Performance Conditions | % off Pool |
| | Average ROE | 25% |
| | Debt/Debt + Equity | 25% |
| | EPS Base | 25% |
| | EPS Stretch | 25% |
| | Total | 100% |
| Exercise conditions and Vesting Date | The Performance Rights Test Date will be 30 June 2015 (Test Date) after which, the Board will determine whether or not the Performance Hurdles have been achieved.<br><br>As soon as reasonably practicable after each Test Date applicable to any Performance Period, the Board shall determine in respect of each eligible employee, as at that Test Date:<br><br>(a) whether, and to what extent, the Performance Hurdles applicable as at the Test Date have been satisfied;<br><br>(b) the number of Performance Rights (if any) that will become Vested Performance Rights as at the Test Date; and<br><br>(c) the number of Performance Rights (if any) that will lapse as a result of the non-satisfaction of Performance Hurdles as at the Test Date,<br><br>and shall provide written notification to each eligible employee as to that determination. | |
| Exercise price | Nil | |
| Expiry date | 30 September 2015<br><br>A Performance Right lapses, to the extent it has not been exercised, on the earlier to occur of:<br><br>(a) where Performance Hurdles have not been satisfied as at the relevant Test Date;<br><br>(b) if an eligible employee's employment with the Company or Related Body Corporate ceases before the Vesting Date;<br><br>(c) the day the Board makes a determination that the Performance Rights lapses because of breach, fraud or dishonesty; and<br><br>(d) 30 September 2015. | |
| 5 Day volume weighted average Share price[1] | $0.7960 | |

(1) Except for Paul Freer, whose Performance Rights commenced 4 March 2013, and five day volume weighted average share price of $1.5950.

(2) Test Date: the date at which assessment against the Performance Conditions are made by the Board. For PR2013, the Test Date will be 30 June 2015.

## 33 SHARE-BASED PAYMENTS (CONTINUED)

### (c) Performance Rights Plan (continued)

Set out below are summaries of rights issued under the plan:

| Effective Date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Expired during the year Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| Company – 2013 | | | | | | | | |
| 1 July 2012 | 30 September 2015 | Nil | - | 1,256,238 | - | - | 1,256,238 | - |
| 4 March 2013 | 30 September 2015 | Nil | - | 100,000 | - | - | 100,000 | - |
| Total | | | **-** | **1,356,238** | **-** | **-** | **1,356,238** | **-** |

**Fair Value of Performance Rights Issued**

The assessed fair value at issue date of all performance rights is set out above. The fair value at issue date is determined based on the five day volume weighted average share price prior to issue date.

### (d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Employee share options | **150** | 151 |
| Employee performance rights | **200** | - |
| Total expenses arising from share-based payment transactions | **350** | 151 |

## 34 EVENTS OCCURRING AFTER THE REPORTING PERIOD

### (a) Dividend

A fully franked final dividend of 3.6 cents, totalling $4.2million, has been declared, payable on 30 October, 2013. No provision has been raised in these accounts.

## 35 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | CONSOLIDATED | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Profit for the year | **15,614** | 12,682 |
| Depreciation and amortisation | **3,793** | 3,762 |
| Fair value losses on other financial assets | **38,780** | 37,344 |
| Non-cash employee benefits expense – share-based payments | **350** | 151 |
| Provision for doubtful debts | **9** | 2 |
| Assets written off | **70** | 141 |
| Other non-cash expenses | **497** | 422 |
| Borrowing costs | **1,718** | 1,623 |
| Interest paid | **4,446** | 4,555 |
| Change in operating assets and liabilities | | |
| (Increase) in trade debtors and bills of exchange | **277** | (936) |
| (Increase) decrease in sundry debtors | **(168)** | (332) |
| (Increase) decrease in other non-current assets | **(1,871)** | (1,712) |
| Increase (decrease) in trade creditors | **195** | 1,031 |
| Increase (decrease) in sundry creditors and accruals | **788** | 1,271 |
| Increase (decrease) in current tax liability | **1,361** | 263 |
| Increase (decrease) in deferred tax liabilities | **(3,655)** | (2,941) |
| Net cash inflow (outflow) from operating activities | **62,204** | 57,326 |

## 36 PARENT ENTITY FINANCIAL INFORMATION

### (a) Summary financial information

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

| | COMPANY | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Balance sheet | | |
| Current assets | **4,694** | 3,848 |
| Non-current assets | **207,507** | 186,147 |
| Total assets | **212,201** | 189,995 |
| | | |
| Current liabilities | **23,369** | 21,033 |
| Non-current liabilities | **100,181** | 89,489 |
| Total liabilities | **123,550** | 110,522 |
| | | |
| *Shareholders' equity* | | |
| Contributed equity | **80,095** | 74,324 |
| Reserves | **1,771** | 1,421 |
| Retained earnings | **6,785** | 3,728 |
| Capital and reserves attributable to owners of Collection House Limited | **88,651** | 79,473 |
| | | |
| Profit or loss for the year | **10,687** | 10,334 |
| | | |
| Total comprehensive income | **10,687** | 10,334 |

### (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 28.

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 2012 or 30 June 2013. For information about guarantees given by the parent entity, please see above.

### (d) Comparative information

Comparative information has been adjusted to reflect the effect of intercompany transactions in relation to dividends and consolidated taxation entries for the prior year.

# DIRECTORS' DECLARATION
## 30 JUNE 2013

In the directors' opinion:

(a) the financial statements and notes set out on pages 58 to 122 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 2013 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

22 August 2013

# INDEPENDENT AUDITOR'S REPORT

**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 2013, 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 2013 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 46 to 55 of the Directors' Report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001.*

Lawler Hacketts

**LAWLER HACKETTS AUDIT**

**Liam Murphy**
**Partner**

**Brisbane, 22 August 2013**

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20 August 2013.

## 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 | 828 | 504,541 |
| 1,001–5,000 | 1,895 | 5,219,399 |
| 5,001–10,000 | 689 | 5,224,759 |
| 10,001–100,000 | 704 | 18,925,009 |
| 100,001 and over | 86 | 85,564,032 |
| Total | 4,202 | 115,437,740 |

There were 135 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. HSBC Custody Nominees (Australia) Limited | 13,862,792 | 12.01 |
| 2. Mr Dennis George Punches (D G Punches Revocable Account) | 10,452,535 | 9.05 |
| 3. Ankla Pty Ltd | 9,615,385 | 8.33 |
| 4. George Laurens (Qld) Pty Ltd (Pearce Family A/C) | 4,987,925 | 4.32 |
| 5. Tombenet Pty Ltd (Coutts Superannuation A/C) | 4,391,379 | 3.80 |
| 6. JP Morgan Nominees Australia Limited | 3,850,260 | 3.34 |
| 7. Mr John Marshall Pearce & Mrs Sandra Anne Pearce (Collection House S/Fund A/C) | 3,756,251 | 3.25 |
| 8. National Nominees Limited | 3,347,846 | 2.90 |
| 9. Mr Dennis George Punches (D G Punches Revocable Account) | 3,000,000 | 2.60 |
| 10. Citicorp Nominees Pty Limited | 2,880,720 | 2.50 |
| 11. Mr Anthony Robin Aveling | 1,951,197 | 1.69 |
| 12. Garrett Smythe Limited | 1,042,943 | 0.90 |
| 13. Mr William Walter Kagel | 1,000,000 | 0.87 |
| 14. Mr Dennis George Punches (Grantor Ret Annuity No. 1 Account) | 1,000,000 | 0.87 |
| 15. Mr Lev Mizikovsky and Mrs Emily Dorothy Mizikovsky (Superfun Superfund Account) | 963,808 | 0.83 |
| 16. Sunstar Australia Pty Ltd | 866,796 | 0.75 |
| 17. Mr Frederick Benjamin Warmbrand (FB & LJ Warmbrand Super A/C) | 829,157 | 0.72 |
| 18. Brispot Nominees Pty Ltd (House Head Nominee No. 1 A/C) | 820,626 | 0.71 |
| 19. Durbin Superannuation Pty Ltd (Durbin Family S Fund A/C) | 780,000 | 0.68 |
| 20. Mr Fritz Lee Duda and Mrs Mary Lee Duda (FLD Interests UTD 111781 Account) | 755,000 | 0.65 |
| Total | 70,154,620 | 60.77 |

### Unquoted equity securities

Details of these Options and Performance Rights are set out at note 33 of the financial statements.

| Grant date | Balance at 1 July 2012 | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| EXECUTIVE OPTIONS* | | | | | |
| 1 March 2011 | 2,956,000 | - | 2,364,800 | - | 591,200 |
| 18 July 2008 | 912,500 | - | 912,500 | - | - |
| FORMER MD/CEO OPTIONS | | | | | |
| 31 October 2008 | 800,000 | - | 800,000 | - | - |
| PERFORMANCE RIGHTS | | | | | |
| 1 July 2012 | - | 1,256,238 | - | - | 1,256,238 |
| 4 March 2013 | - | 100,000 | - | - | 100,000 |

*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

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.

There is a restriction on the relevant interest in the 371,024 shares held by Mark G Answerth & Associates Pty Ltd under section 608(1) of the Corporations Act.

## C. SUBSTANTIAL HOLDERS

Substantial shareholders of ordinary shares in the Company are set out below:

| Holder | Units | % of issued capital |
|---|---|---|
| 1. Dennis George Punches (combined shareholdings) | 14,452,535 | 12.52 |
| 2. HSBC Custody Nominees (Australia) Limited | 13,862,792 | 12.01 |
| 3. Mr Lev Mizikovsky, Ankla Pty Ltd, Sunstar Australia Pty Ltd, Ripeland Pty Ltd and Rollee Pty Ltd (combined shareholdings) | 12,581,434 | 10.9 |
| 4. John Marshall Pearce and Sandra Anne Pearce/George Laurens (Qld) Pty Ltd (combined shareholdings) | 9,017,584 | 7.81 |

## 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

| | |
|---|---|
| **CONTACT** | Matthew Thomas<br><br>Managing Director and Chief Executive Officer<br>**Phone:** 07 3100 1245<br>**Email:** matthew.thomas@collectionhouse.com.au |
| **INVESTOR AND CLIENT PRESENTATION AVAILABLE AT** | www.collectionhouse.com.au |
| **PLACE OF BUSINESS** | Level 7, 515 St Paul's Terrace<br>Fortitude Valley QLD 4006<br><br>PO Box 2247<br>Fortitude Valley BC QLD 4006 |
| **PRINCIPAL REGISTERED OFFICE IN AUSTRALIA** | Level 7, 515 St Paul's Terrace<br>Fortitude Valley QLD 4006 |
| **SHARE REGISTER** | Computershare Investor Services Pty Ltd<br>GPO Box 2975<br>Melbourne VIC 3000<br>**Telephone:** 1300 850 505<br>**Facsimile:** +61 7 3237 2152<br>www.computershare.com.au |
| **AUDITOR** | Lawler Hacketts Audit<br>Level 3, 549 Queen Street<br>Brisbane QLD 4000 |
| **STOCK EXCHANGE LISTINGS** | Collection House Limited shares are listed on the Australian Securities Exchange (ASX).<br>The home exchange is Sydney.<br><br>ASX Code: CLH |

20 YEARS 1992 - 2012

Collection House Limited

Leading the way