



Cash Converters International Limited

ABN 39 069 141 546

Half-Year Report

For the half-year ended 31 December 2017

Directors' report

For the half-year ended 31 December 2017

The directors of Cash Converters International Limited (the Company) submit the following report of the Company for the half-year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Mr Stuart Grimshaw	Non-Executive Chairman
Mr Peter Cumins	Executive Deputy Chairman
Mr Lachlan Given	Non-Executive Director
Mr Kevin Dundo	Non-Executive Director
Ms Ellen Comerford	Non-Executive Director
Ms Andrea Waters	Non-Executive Director

Dividends

On 22 August 2017 the directors of the Company announced that there would be no final dividend in respect of the financial year ended 30 June 2017.

The Board have resolved not to pay an interim dividend. This decision extends the desire by the Board to reinvest its capital into the transformation of the business and ensure sufficient funding capacity for the execution of its long-term strategy and ultimately improved long-term value to our shareholders.

Review of operations

The Company is progressing well in its strategy of profitable growth as the most trusted second-hand goods retailer and financial services provider in our sector. The delivery of a net profit after tax (NPAT) of \$9.360 million (half-year ended 31 December 2016: \$11.456 million) exceeds market guidance of \$9.2 million (which was in line with the second half performance of FY 2017).

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

	Segment revenues		Segment EBITDA results	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	\$'000	\$'000	\$'000	\$'000
Franchise operations	9,504	9,978	5,763	5,046
Store operations	58,848	64,698	8,176	9,527
Personal finance	48,794	61,599	21,847	25,850
Vehicle financing	5,522	4,243	887	(763)
Totals before head office costs	122,668	140,518	36,673	39,660
Head office	280	125	(15,196)	(14,204)
Totals after head office costs	122,948	140,643	21,477	25,456
Depreciation, amortisation and impairment			(3,854)	(3,862)
Finance costs			(4,287)	(4,935)
Profit before income tax			13,336	16,659
Income tax expense			(3,976)	(5,204)
Profit / (loss) for the half-year			9,360	11,456
Operating cash (outflow) / inflow			(23,914)	30,711
Basic earnings per share (cents)			1.90 cents	2.35 cents

Directors' report

For the half-year ended 31 December 2017

The business made a number of commitments to the market following the release of the 2017 full year result, and management is pleased to report the successful achievement of the following key objectives:

- NPAT of \$9.360 million for first half of FY 2018 exceeding the second half of FY 2017 (\$9.162 million).
- Medium Amount Credit Contract (MACC) lending volumes are exceeding expectations. The expansion of the personal finance product suite to include larger loans up to \$5,000 has been met by high customer demand, with lending volumes of \$28.0 million for the period to achieve a loan book of \$30.1 million.
- Following the expected decline in Small Amount Credit Contract (SACC) lending, reaching a low point of \$60.3 million in August 2017, SACC lending has stabilised and is now growing. The SACC book rose to \$77.4 million at 31 December 2017.
- Increase in pawn broking interest revenue of 3.5% achieved over the previous corresponding period.
- Green Light Auto (GLA) growth in loan book achieved with an average \$1.9 million monthly growth. The total loan book size up from \$20.1 million (30 June 2017) to \$31.6 million (31 December 2017) as the business expands its broker and dealer channel to over 100 partners.
- Continued online retail growth accomplished with a 7.3% increase in Webshop sales compared to the previous corresponding period.
- Reduction in bad debt expense on personal loans achieved as bad debts written off, net of recoveries, down \$5.482 million to \$10.438 million compared to previous corresponding period, equating to 11.3% of principal advanced vs 21.5% in the previous corresponding period.
- Enforceable Undertaking closed with no recommendations in both interim and final reports issued to ASIC by the independent expert.
- GLA recorded its first profit with a segment EBITDA of \$887 thousand (half-year ended 31 December 2016: segment EBITDA loss of \$763 thousand).
- Successful roll out of the customer satisfaction program with over 35,000 responses since its launch in November 2017, achieving a Net Promoter Score of 45.
- The UK business has embedded its new operating model and is generating steady returns, whilst focusing on new products and services to be offered through the franchise store network.
- Secured additional funding for the loan book growth, with an increase to the securitisation facility to \$150 million and the ability to also fund MACC and GLA loans.

Divisional performance

Franchise operations

Cash Converters' franchise operations incorporate royalties and license fee income from its 380 international stores in 16 countries, as well as the master franchisor operation in the United Kingdom which supports a 196-strong franchise store network, and Australia's franchise operation with its 84 franchisee owned stores. Also included is the 25% equity interest in Cash Converters New Zealand which operates 27 stores (17 corporate and 10 franchise).

Overall the EBITDA from franchise operations was \$5.763 million, up \$717 thousand from the prior corresponding period. New Zealand operations were the largest contributor to this increase, with its strongest result to date, contributing \$541 thousand to the division (up from \$189 thousand in the prior corresponding period).

International revenues remained steady, whilst the UK contributed an increase to an EBITDA of \$1.421 million (half-year ended 31 December 2016: \$959 thousand). With the exception of one additional franchise store opening, the franchise network in Australia remained consistent with the prior corresponding period.

Directors' report

For the half-year ended 31 December 2017

Personal Finance operations

The personal finance operation of Cash Converters has continued its significant transformation over the period. Following the introduction of the new credit assessing platform in April 2017, which as anticipated, reduced the approval rate for personal loans and hence resulted in lower lending volumes, the 6 months to 31 December 2017 reversed this trend. The SACC loan book has rebounded to a net increase of 13.8% since 30 June 2017 to \$77.4 million. Whilst revenue of \$48.794 million is down 20.7% on the prior corresponding period, this was anticipated as the SACC loan book contracted. The rebound of the SACC loan book sets the foundation for revenue to increase in the second half of the year. The decrease in SACC revenues was offset to a large degree by the diversification into the MACC loans, which were only available for the last two months of the prior corresponding period. With a full year of the product, the half-year saw an increase of 125% in the MACC loan book from 30 June 2017 to \$30.1 million at 31 December 2017.

With the new assessing platform and an improved credit profile of new MACC customers, the business has managed to significantly reduce its bad debt expense, with the total written off across all products, net of recoveries, down 32.2% on the previous corresponding period. The business continues with a conservative approach to the MACC loan book, keeping focussed on the credit profile of these customers now borrowing larger amounts over a longer term.

To address the new loan book profile, the personal finance division has focussed on optimisation of its processes and hence reducing costs. Whilst revenues have decreased by 20.7% to \$48.794 million, segment EBITDA of \$21.847 million represented a 15.5% decrease on the segment EBITDA of \$25.850 million for the half-year ended 31 December 2016. This reflects an EBITDA margin increase from 42.0% to 44.8% for the period.

The income for administration of the cash advance products for the corporate and franchise store networks is down 26.0% on the previous corresponding period to \$3.734 million (half-year ended 31 December 2016: \$5.043 million), as anticipated following changes to the assessing guidelines issued for Cash Advance.

United Kingdom

Following restructure of the UK business, no new personal loans have been issued since May 2016. The collection activity has now ceased with a small amount of recoveries now being received from third party collection agents for those loans written off.

Although cash advances are still offered by the UK franchise network, all revenue relating to the cash advance business is recorded within the franchise division since the revenue now totally relates to the franchisee network.

Store operations

The corporate store network in Australia produced a segment EBITDA of \$8.177 million, down 14.2% on the half-year ended 31 December 2016 segment EBITDA of \$9.528 million.

Faced with a challenging retail landscape, the store network has maintained a steady retail revenue, but margins have come under pressure. Pawnbroking continues to deliver year on year growth, with interest revenue up 3.5% to \$14.778 million (half-year ended 31 December 2016: \$14.284 million).

The changes to financial products in store have seen Cash Advance lending drop 31.7% with a corresponding reduction of \$4.946 million in revenue, however, as the improvements continue to optimise the customer experience and process efficiencies, volumes have again started to increase towards the end of the period.

During the period, two underperforming stores closed as their leases ended. All staff were relocated to other stores and one territory in Queensland was filled by a new franchise operated store.

Directors' report

For the half-year ended 31 December 2017

Vehicle financing

Now well into its second year of operating in the secured auto finance market, Green Light Auto has continued to build on its solid foundations, reporting its first positive segment EBITDA for the period, with an EBITDA of \$887 thousand (half-year ended 31 December 2016: EBITDA loss of \$763 thousand). The GLA loan book has grown by 57% in the period to \$31.6 million and the old Carboodle leases continue to run off, with the 322 active vehicle leases scheduled to complete over the next two years.

GLA continues to add to its broker and dealer network, with over 100 accredited partners on board. Operational efficiencies are also evolving with the integration of systems with Cash Converters' loan management platform taking place in the second half of FY 2018. The business is now on track for its first full year profit and a steady platform for greater returns in FY 2019 as the loan book matures.

Financial position

Summarised financial position	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Cash at bank	99,443	80,571
Loan receivables	135,170	101,970
Other receivables	29,635	31,051
Inventories	20,645	20,991
Other assets and intangibles	169,638	164,262
Total assets	454,531	398,845
Borrowings	154,750	107,237
Other liabilities	28,790	30,769
Total liabilities	183,540	138,006
Total equity	270,991	260,839
Gearing (net debt/equity)	20.4%	10.2%

Receivables (trade and personal loans)

Outstanding loan receivables (personal loans and vehicle finance loans) for the period have increased from \$101.969 million to \$135.170 million with growth in all loan products since 30 June 2017. Other trade receivables include the run-off of the Carboodle leases and the repayment of the loans provided to franchisees in the UK for the purchase of corporate stores in 2016.

Other assets and intangibles

The Company continues its investment in software development and the store network with capital expenditure of \$5.7 million during the period.

Borrowing

During the period, the Company secured an amendment to its securitisation facility with Fortress Investment Group (Fortress). The original facility entered into in 2016, facilitated funding against the SACC personal loan book. The decline in SACC lending saw the facility under-utilised, whilst growth occurred in the MACC and GLA loan products, but was unable to be funded under the terms of the original Fortress facility. The amendment facilitates the draw down against both MACC and GLA loans in addition to the now growing SACC loan book. The amended facility also increases the total limit from \$100 million to \$150 million and extends the term for a further 3 years from December 2017.

The Company is currently evaluating options in preparation for the \$60 million bond maturing in September 2018.

Directors' report

For the half-year ended 31 December 2017

Cash flows

Operating cash outflows during the period were \$23.914 million compared to inflows during the half-year ended 31 December 2016 of \$30.711 million as the growth in principal advanced for MACC, SACC and GLA loan products reversed the previous trend and saw cash outgoings exceeding collections. However, with the additional Fortress facility capacity providing a net increase in borrowings of \$47.513 million, overall cash and cash equivalents at period end of \$99.443 million was an increase of 23.4% (30 June 2017: \$80.571 million). Of these balances, \$10.567 million (30 June 2017: \$20.583 million) consists of restricted cash deposits held as security for the transactional banking facilities and held in trust for the securitisation facility.

Outlook

The Company anticipates a stronger second half to the year, with continuing growth in MACC, SACC and GLA lending expected to deliver increases in revenue and profitability.

With significant work underway on its digital transformation, the business will deliver in the second half a new online loan application site that will greatly improve the customer experience, with a focus on making it easier for the customer to do business with us. This investment will then extend to the online retail offering, with a completely revamped Webshop and mobile app.

GLA will complete its integration with Cash Converters' advanced systems to leverage the scale and efficiencies to facilitate continued growth in both B2B (brokers and dealers) and B2C (direct online) channels.

As part of the corporate strategy to deliver growth, the business continues to evaluate new products and channels, whilst continuing to evolve a frictionless customer experience in every engagement.

Australian regulatory environment – SACC Law Review

On 28 November 2016 the Minister for Revenue and Financial Services issued a media release in response to the Final Report of the SACC Law Review advising that the government supports most of the recommendations, in part or in full, of the Final Report. As at the date of this report, the government has not enacted any amendment to the current legislation as a result of the report and the Company is continuing discussions with the government around these recommendations.

ASIC

In November 2016 the Company entered into an Enforceable Undertaking (EU) with ASIC. In accordance with the EU, the Company remediated certain customers who applied for and were granted small amount credit contracts via the Cash Converters website in the period 1 July 2013 to 1 June 2016. The remediation program was completed during the period, with a balance of \$312,610 (where customers couldn't be contacted) being donated to the Salvation Army's financial counselling program.

In January 2018 ASIC confirmed to the Company that following both the interim and final reports of their appointed independent expert making no recommendations, the EU is now closed, with ASIC satisfied that its concerns have been addressed by the Company's new assessing process.

Queensland class actions

On 31 July 2015 the Company was served with a statement of claim lodged with the New South Wales Registry of the Federal Court of Australia commencing a class action on behalf of borrowers resident in Queensland who took out personal loans from the Company's subsidiaries during the period from 30 July 2009 to 30 June 2013.

The proceeding relates to loans made only in Queensland, notwithstanding that the action has been commenced in New South Wales.

Directors' report

For the half-year ended 31 December 2017

On 27 April 2016 the Company was served with a statement of claim lodged with the New South Wales Registry of the Federal Court of Australia commencing a class action on behalf of borrowers resident in Queensland who took out cash advance loans during the period from 28 April 2010 to 30 June 2013.

Both these proceedings relate to the brokerage fee charged to customers. The brokerage fee system has not been used since 30 June 2013.

These proceedings continue to be vigorously defended by the company.

Subsequent events

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

Auditor's independence declaration

The auditor's independence declaration is included on page 23 of the half-year financial report.

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

On behalf of the directors



Stuart Grimshaw
Chairman

Perth, Western Australia
19 February 2018

Condensed consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Notes	31 December 2017 \$'000	31 December 2016 \$'000
Franchise fee revenue		7,068	7,482
Financial services interest revenue	2	75,836	90,761
Sale of goods	2	37,740	39,417
Other revenues	2	2,304	2,762
Total revenue		122,948	140,422
Financial services cost of sales		(18,799)	(26,870)
Cost of goods sold		(21,048)	(21,322)
Other cost of sales		(1,963)	(2,942)
Total cost of sales		(41,810)	(51,134)
Gross profit		81,138	89,288
Employee expenses	3	(35,180)	(38,009)
Administrative expenses	3	(4,074)	(4,161)
Advertising expenses		(5,439)	(6,141)
Occupancy expenses	3	(7,663)	(7,040)
Other expenses	3	(11,700)	(12,531)
Finance costs	3	(4,287)	(4,935)
Share of net profit of equity accounted investments		541	189
Profit before income tax		13,336	16,660
Income tax expense		(3,976)	(5,204)
Profit for the period		9,360	11,456
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		62	(1,141)
Other comprehensive income / (loss) for the period		62	(1,141)
Total comprehensive profit for the period		9,422	10,315
Profit attributable to:			
Owners of the Company		9,360	11,456
Non-controlling interest		-	-
		9,360	11,456
Total comprehensive profit attributable to:			
Owners of the Company		9,422	10,315
Non-controlling interest		-	-
		9,422	10,315
Earnings per share			
Basic (cents per share)		1.90	2.35
Diluted (cents per share)		1.85	2.31

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

Condensed consolidated statement of financial position
As at 31 December 2017

	Notes	31 December 2017 \$'000	30 June 2017 \$'000
Current assets			
Cash and cash equivalents	6	99,443	80,571
Trade and other receivables	7	22,860	7,571
Loan receivables	8	109,150	85,157
Inventories		20,645	20,991
Prepayments		8,463	5,512
Current tax receivable		312	35
Total current assets		260,873	199,837
Non-current assets			
Trade and other receivables	7	6,775	23,480
Loan receivables	8	26,020	16,813
Plant and equipment		10,354	10,233
Deferred tax assets		9,838	9,879
Goodwill	9	106,967	107,009
Other intangible assets		28,764	26,987
Investments in associates		4,940	4,607
Total non-current assets		193,658	199,008
Total assets		454,531	398,845
Current liabilities			
Trade and other payables		19,871	21,288
Borrowings	10	137,233	46,303
Provisions		7,788	7,064
Total current liabilities		164,892	74,655
Non-current liabilities			
Borrowings	10	17,517	60,934
Provisions		1,131	2,417
Total non-current liabilities		18,648	63,351
Total liabilities		183,540	138,006
Net assets		270,991	260,839
Equity			
Issued capital	11	210,301	210,203
Reserves		7,900	7,206
Retained earnings		52,790	43,430
Total equity		270,991	260,839

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

Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2017

	Issued capital	Foreign currency translation reserve	Non-controlling interest acquisition reserve	Share-based payment reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	207,540	6,543	(15,809)	540	43,471	242,285
Profit for the period	-	-	-	-	11,456	11,456
Exchange differences arising on translation of foreign operations	-	(1,141)	-	-	-	(1,141)
Total comprehensive income for the period	-	(1,141)	-	-	11,456	10,315
Dividend reinvestment plan	2,663	-	-	-	-	2,663
Dividends paid	-	-	-	-	(4,850)	(4,850)
Share-based payments	-	-	-	470	-	470
Balance at 31 December 2016	210,203	5,402	(15,809)	1,010	50,077	250,883
Balance at 1 July 2017	210,203	5,335	-	1,871	43,430	260,839
Profit for the period	-	-	-	-	9,360	9,360
Exchange differences arising on translation of foreign operations	-	62	-	-	-	62
Total comprehensive income for the period	-	62	-	-	9,360	9,422
Share-based payments	-	-	-	730	-	730
Shares issued on exercise of performance rights	98	-	-	(98)	-	-
Balance at 31 December 2017	210,301	5,397	-	2,503	52,790	270,991

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

Condensed consolidated statement of cash flows
For the half-year ended 31 December 2017

	Notes	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities			
Receipts from customers		88,714	98,045
Payments to suppliers and employees		(94,990)	(98,418)
Interest received		885	814
Interest received from loans		30,267	27,895
Net decrease / (increase) in loans advanced		(40,070)	8,739
Interest and costs of finance paid		(4,561)	(3,340)
Income tax paid		(4,159)	(3,024)
Net cash flows (used in) / provided by operating activities		<u>(23,914)</u>	<u>30,711</u>
Cash flows from investing activities			
Acquisition of intangible assets		(3,771)	(2,185)
Purchase of plant and equipment		(1,908)	(948)
Instalment credit loans repaid by franchisees		687	51
Net cash flows used in investing activities		<u>(4,992)</u>	<u>(3,082)</u>
Cash flows from financing activities			
Dividends paid – members of parent entity		-	(2,186)
Proceeds from borrowings		98,250	34,750
Repayment of borrowings		(50,528)	(48,738)
Capital element of finance lease and hire purchase payment		(80)	(15)
Net cash flows provided by / (used in) financing activities		<u>47,642</u>	<u>(16,189)</u>
Net increase / (decrease) in cash and cash equivalents		18,736	11,440
Cash and cash equivalents at the beginning of the period		80,571	73,609
Effects of exchange rate changes on the balance of cash held in foreign currencies		136	(287)
Cash and cash equivalents at the end of the period	6	<u>99,443</u>	<u>84,762</u>

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

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2017

1. Significant accounting policies

(a) Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2017, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(b) Statement of compliance

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

(c) Changes to accounting policies

The Group has adopted all of the new and revised Standards and Interpretations, including amendments to the existing standards issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The new and revised Standards adopted during the period do not have a significant impact on the measurement or disclosure of the Group.

(d) Reclassification of comparative financial information

Consistent with the presentation adopted in the 30 June 2017 financial statements, comparative information in the statement of profit or loss and other comprehensive income and segment note has been reclassified as follows to be consistent to the current period presentation:

- Area agent fees / commission of \$6.859 million has been reclassified from other expenses to financial services cost of sales to better align with management's consideration of these costs following operational changes in the second half of the 2017 financial year
- Bad debt recoveries of \$3.301 million have been reclassified from financial services interest revenue to financial services cost of sales
- Reclassifications in revenue categories have resulted in increased financial services interest revenue of \$135 thousand, decreased sale of goods revenue of \$322 thousand, and increased other revenues of \$187 thousand

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

1. Significant accounting policies (continued)

- Reclassifications in cost of sales categories have resulted in increased financial services cost of sales and decreased other cost of sales of \$193 thousand
- Reclassification of \$2.010 million of expenditure relating to personal loan products has been reclassified from other expenses to financial services cost of sales and a further \$504 thousand from other expenses to other cost of sales

On the statement of financial position comparative information has been amended to reclassify \$2.776 million from current loan receivables to non-current loan receivables to align with the expected recovery of the outstanding principal.

(e) Rounding

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

2. Revenue

	31 December 2017 \$'000	31 December 2016 \$'000
<i>Financial services interest revenue</i>		
Personal loan interest	32,666	34,368
Loan establishment fees	13,597	23,940
Pawn broking fees	14,778	14,284
Cash advance fee income	10,057	15,002
Vehicle loan interest	3,302	783
Vehicle loan establishment fees	255	429
Vehicle lease interest	444	1,109
Instalment credit loan interest	641	638
Other financial services revenue	96	208
	<hr/> 75,836	<hr/> 90,761
<i>Sale of goods</i>		
Retail sales	37,252	39,263
Vehicle trade sales	488	154
	<hr/> 37,740	<hr/> 39,417
<i>Other revenue</i>		
Bank interest	280	213
Other vehicle revenue	1,033	1,752
Other revenue	991	797
	<hr/> 2,304	<hr/> 2,762

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

3. Expenses

	31 December 2017 \$'000	31 December 2016 \$'000
<i>Employee expenses</i>		
Employee benefits	32,022	34,958
Share-based payments	730	469
Superannuation expense	2,428	2,582
	<u>35,180</u>	<u>38,009</u>
<i>Administrative expenses</i>		
General administrative expenses	1,413	1,478
Communications expenses	767	1,069
IT expenses	1,377	1,158
Travel costs	440	428
Motor vehicle expenses	77	28
	<u>4,074</u>	<u>4,161</u>
<i>Occupancy expenses</i>		
Rent	5,661	5,233
Outgoings	928	1,220
Other	1,074	587
	<u>7,663</u>	<u>7,040</u>
<i>Other expenses</i>		
Legal fees	2,421	2,594
Professional and registry costs	2,525	1,534
Auditing expenses	283	436
Bank charges and borrowing costs	904	1,315
Other expenses from ordinary activities	1,713	2,790
Depreciation	1,618	1,728
Amortisation	2,236	2,134
	<u>11,700</u>	<u>12,531</u>
<i>Finance costs</i>		
Interest	4,285	4,903
Finance lease charge	2	32
	<u>4,287</u>	<u>4,935</u>

4. Segment information

The Group's operating segments are organised and managed separately according to the nature of their operations. Each segment represents a strategic business unit that provides different services to different categories of customer. The Chief Executive Officer (chief operating decision maker) monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. The consolidated entity's reportable segments under AASB 8 *Operating Segments* are therefore as follows:

Franchise operations

This involves the sale of franchises for the retail sale of second hand goods and the sale of master licenses for the development of franchises in countries around the world.

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

4. Segment information (continued)

Store operations

This segment involves the retail sale of second hand goods, cash advance and pawn broking operations at corporate owned stores in Australia.

Personal finance

This segment comprises the Cash Converters Personal Finance personal loans business and Mon-E, which is responsible for providing the internet platform and administration services for the Cash Converters network in Australia to offer small cash advance loans to customers. In the half-year ended 31 December 2016, this segment was disclosed as two separate segments, financial services - personal loans and financial services - administration, however was presented as one segment in the 30 June 2017 annual financial statements.

Vehicle financing

This segment comprises Green Light Auto Group Pty Ltd, which provides motor vehicle finance since March 2016, and fully maintained vehicles through a lease product to customers for a term of up to 4 years (a product that the Group ceased to offer during the 2016 financial year).

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies. The following is an analysis of the consolidated entity's revenue and results by reportable operating segment for the periods under review.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, interest income and expense in relation to corporate facilities and tax expense. This is the measure reported to the Chief Executive Officer (chief operating decision maker) for the purpose of resource allocation and assessment of segment performance.

	Franchise operations \$'000	Store operations \$'000	Personal finance \$'000	Vehicle financing \$'000	Corporate head office \$'000	Total \$'000
Half-year ended 31 December 2017						
Interest revenue (i)	1,539	25,749	50,268	4,001	-	81,557
Other revenue	8,865	37,098	250	1,521	-	47,734
Gross revenue	10,404	62,847	50,518	5,522	-	129,291
Less inter-company sales	(900)	(3,999)	(1,724)	-	-	(6,623)
Segment revenue	9,504	58,848	48,794	5,522	-	122,668
External interest revenue (ii)	-	-	-	-	280	280
Total revenue	9,504	58,848	48,794	5,522	280	122,948
EBITDA (iii)	6,393	5,976	23,419	885	(15,196)	21,477
Less inter-company eliminations	(630)	2,200	(1,572)	2	-	-
Segment EBITDA	5,763	8,176	21,847	887	(15,196)	21,477
Depreciation and amortisation	(46)	(1,704)	(94)	(248)	(1,762)	(3,854)
EBIT	5,717	6,472	21,753	639	(16,958)	17,623
Interest expense	(130)	-	(1,733)	(290)	(2,134)	(4,287)
Profit / (loss) before tax from continuing operations	5,587	6,472	20,020	349	(19,092)	13,336

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

4. Segment information (continued)

	Franchise operations \$'000	Store operations \$'000	Personal finance \$'000	Vehicle financing \$'000	Corporate head office \$'000	Total \$'000
Half-year ended 31 December 2016						
Interest revenue (i)	1,562	29,466	63,859	2,321	-	97,208
Other revenue	8,734	39,136	-	1,907	-	49,777
Gross revenue	10,296	68,602	63,859	4,228	-	146,985
Less inter-company sales	(318)	(3,913)	(2,324)	-	-	(6,555)
Segment revenue	9,978	64,689	61,535	4,228	-	140,430
External interest revenue (ii)	-	9	64	15	125	213
Total revenue	9,978	64,698	61,599	4,243	125	140,643
EBITDA (iii)	5,364	6,676	28,386	(766)	(14,204)	25,456
Less inter-company eliminations	(318)	2,851	(2,536)	3	-	-
Segment EBITDA	5,046	9,527	25,850	(763)	(14,204)	25,456
Depreciation and amortisation	(35)	(1,990)	(682)	(41)	(1,114)	(3,862)
EBIT	5,011	7,537	25,168	(804)	(15,318)	21,594
Interest expense	-	-	(2,266)	(252)	(2,417)	(4,935)
Profit / (loss) before tax from continuing operations	5,011	7,537	22,902	(1,056)	(17,735)	16,659

- (i) Interest revenue comprises personal loan interest cash advance fee income, pawn broking interest from customers and commercial loan interest from third parties
- (ii) External interest is interest received on bank deposits
- (iii) EBITDA is earnings before interest, tax, depreciation, amortisation and impairment

	31 December 2017 \$'000	30 June 2017 \$'000
Consolidated entity assets by reportable segment		
Franchise operations	35,532	36,573
Store operations	79,949	73,409
Personal finance	222,382	186,195
Vehicle financing	39,480	24,977
Total of all segments	377,343	321,154
Unallocated assets	77,188	77,691
Consolidated total assets	454,531	398,845

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

	31 December 2017 \$'000	30 June 2017 \$'000
Consolidated entity liabilities by reportable segment		
Franchise operations	6,294	6,879
Store operations	7,999	7,604
Personal finance	102,469	51,226
Vehicle financing	521	3,978
Total of all segments	117,283	69,687
Unallocated liabilities	66,258	68,319
Consolidated total liabilities	183,541	138,006

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

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

5. Dividends

	31 December 2017		31 December 2016	
	Per share cents	Total \$'000	Per share Cents	Total \$'000
Recognised and paid amounts				
Final franked dividend	-	-	1.0	4,850
Proposed and unrecognised amounts				
Interim franked dividend	-	-	-	-

6. Cash and cash equivalents

	31 December 2017 \$'000	30 June 2017 \$'000
Cash on hand	2,789	2,991
Cash at bank	96,654	77,580
	<u>99,443</u>	<u>80,571</u>

Cash at bank includes restricted cash of \$5.085 million (30 June 2017: \$15.101 million) that is held in accounts controlled by the CCPF Receivables Trust No 1 that was established to operate the Company's securitisation facility with Fortress Finance, and a further \$5.482 million (30 June 2017: \$5.482 million) on deposit as security for banking facilities.

7. Trade and other receivables

Current

Trade receivables	1,766	1,187
Allowance for impairment losses	(127)	(58)
Total trade receivables (net)	<u>1,639</u>	<u>1,129</u>
Finance lease receivables	482	506
Vendor finance loans	1,913	1,521
Loan to associate	14,943	-
Other receivables	<u>3,883</u>	<u>4,415</u>
Total trade and other receivables	<u>22,860</u>	<u>7,571</u>

Non-current

Finance lease receivables	1,065	1,932
Vendor finance loans	5,698	6,628
Loan to associate	-	14,908
Other receivables	<u>12</u>	<u>12</u>
Total trade and other receivables	<u>6,775</u>	<u>23,480</u>

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

8. Loan receivables

	31 December 2017 \$'000	30 June 2017 \$'000
Current		
Personal short-term loans (unsecured)	134,064	117,585
Allowance for impairment losses	(25,084)	(25,286)
Deferred establishment fees	(4,381)	(9,575)
Total personal loans (net)	<u>104,599</u>	<u>82,724</u>
Vehicle finance loans (secured)	5,854	2,810
Allowance for impairment losses	(1,303)	(377)
Total vehicle finance loans (net)	<u>4,551</u>	<u>2,433</u>
Total loan receivables	<u>109,150</u>	<u>85,157</u>
Non-current		
Personal short-term loans (unsecured)	1,683	-
Allowance for impairment losses	(84)	-
Total personal loans (net)	<u>1,599</u>	<u>-</u>
Vehicle finance loans (secured)	24,421	16,813
Total loan receivables	<u>26,020</u>	<u>16,813</u>

9. Goodwill

	31 December 2017 \$'000	31 December 2016 \$'000
<i>Net carrying amount</i>		
Balance at beginning of period	107,009	107,009
Goodwill written off on closure of stores	(42)	-
Balance at end of period	<u>106,967</u>	<u>107,009</u>

Allocation of goodwill to cash-generating units

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

	31 December 2017 \$'000	30 June 2017 \$'000
Personal finance	90,561	90,561
Store operations	16,406	16,448
	<u>106,967</u>	<u>107,009</u>

Impairment testing

Half-year ended 31 December 2017

Impairment testing was completed at 30 June 2017, based on management's expectation of future performance, taking into account applicable legislative requirements at the date of the impairment testing, being 30 June 2017. No impairments were identified at 30 June 2017. Refer to note 3.5 of the 30 June 2017 annual financial statements for further information.

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

9. Goodwill (continued)

Impairment testing has been updated to reflect business performance in the half-year ended 31 December 2017. No impairments were identified based on expected future performance under legislative requirements at the date of the impairment testing, being 31 December 2017.

Impairment sensitivity disclosures

As disclosed in note 3.5 of the 30 June 2017 annual financial statements, on 28 November 2016 the Minister for Revenue and Financial Services issued a media release in response to the Final Report of the Small Amount Credit Contract (SACC) Law Review advising that the government supports most of the recommendations, in part or in full, of the Final Report. One of the recommendations is to extend the SACC PEA amount requirement to all consumers, and lowering it to 10 per cent of the consumer's net income.

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

Note 3.5 of the 30 June 2017 annual financial statements included details of the key assumptions applied in the impairment testing as at 30 June 2017, and also noted that the recoverable value of both the Personal finance and Store operations businesses may be impacted by potential future legislative changes given the impact on both the Group's personal loan and cash advance operations.

Whilst ultimately the Group's business operations could potentially be adjusted to mitigate the impact of these changes, the likely impact of the legislation if enacted in its currently proposed form, for loans issued on or after 1 March 2019, based on the current profile of the loan book and with reasonably possible changes to other key assumptions being taken into account, may result in an impairment within a range of \$50 million to \$55 million.

As outlined above, this estimate is subject to significant variability due to both the ultimate form and enactment date of the legislation, both of which are uncertain, as well as the profile of the loan book when any applicable legislative changes were to come into effect.

Additionally, there is no certainty that any change to applicable legislation will be made.

10. Borrowings

		31 December 2017 \$'000	30 June 2017 \$'000
Current			
Securitisation facility	(i)	77,402	44,426
Loans – vehicle finance	(ii)	-	1,799
Bonds	(iii)	59,831	-
Hire purchase and lease liabilities		-	78
		<u>137,233</u>	<u>46,303</u>

Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2017

10. Borrowings (continued)

		31 December 2017 \$'000	30 June 2017 \$'000
Non-current			
Securitisation facility	(i)	17,517	-
Loans – vehicle finance	(ii)	-	1,229
Bonds	(iii)	-	59,705
		<u>17,517</u>	<u>60,934</u>

- (i) The securitisation facility represents a liability owed by CCPF Receivables Trust No 1, a consolidated subsidiary established as part of the borrowing arrangement with the Fortress Investment Group. This liability is secured against eligible receivables which have been assigned to the Trust. Collections from Trust receivables are used to pay interest of the securitisation facility, with the remainder remitted to the operating entity twice per month. During the period the Company secured an amendment to the facility. As part of the amendment, the eligibility of receivables to act as security was extended to include Medium Amount Loans issued by Cash Converters Personal Finance and secured vehicle loans provided by Green Light Auto. (Under the original facility only Small Amount Credit Contracts were eligible.) Receivables have maturities of up to 5 years and the facility has accordingly been presented as current and non-current liabilities in line with the maturities of the underlying receivables. The facility limit was also increased under the amendment from \$100 million to a total facility of \$150 million. The amendment also extended the term to another three years with an option to extend for a further two years. In the ordinary course of business, the consolidated entity currently expects to utilise this facility until at least 10 November 2020.
- (ii) Loans – Vehicle Finance represented a vehicle leasing facility with Fleet Partners for the provision of fully maintained vehicles for the use of GLA's customers. The underlying financing from Fleet Partners was repaid in November 2017.
- (iii) Represents a September 2013 issue of \$60 million of senior unsecured 7.95% notes which mature in September 2018 with FIIG Securities Limited. Direct borrowing costs have been capitalised and offset against the liability. As the maturity date now falls within 12 months, the liability is reflected as a current liability on the statement of financial position.

11. Issued capital

	31 December 2017 Number	31 December 2016 Number	31 December 2017 \$'000	31 December 2016 \$'000
Balance at beginning of half-year	493,047,424	484,976,037	210,203	207,540
Issued during half-year				
Dividend reinvestment plan	-	8,071,387	-	2,663
Shares issued on exercise of performance rights	102,166	-	98	-
Balance at end of half-year	<u>493,149,590</u>	<u>493,047,424</u>	<u>210,301</u>	<u>210,203</u>

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2017

12. Financial instruments

The fair value of the Group's financial assets and liabilities are determined on the following basis:

Financial assets and financial liabilities that are measured at fair value on a recurring basis

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2017 and 31 December 2016 the Group had no material financial assets and liabilities that are measured on a recurring basis at fair value.

Financial assets and financial liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)

At 31 December 2017 and 31 December 2016, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

13. Contingent liabilities

In the course of its normal business the Group occasionally receives claims and writs for damages and other matters arising from its operations. Where, in the opinion of the directors it is deemed appropriate, a specific provision is made, otherwise the directors deem such matters are either without merit or of such kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the economic entity if disposed of unfavourably.

On 31 July 2015 the Company was served with a statement of claim lodged with the New South Wales Registry of the Federal Court of Australia commencing a class action on behalf of borrowers resident in Queensland who took out personal loans from the Company's subsidiaries during the period from 30 July 2009 to 30 June 2013.

On 27 April 2016 the Company was served with a statement of claim lodged with the New South Wales Registry of the Federal Court of Australia commencing a class action on behalf of borrowers resident in Queensland who took out cash advance loans during the period from 28 April 2010 to 30 June 2013.

Both these proceedings relate to the brokerage fee charged to customers. The brokerage fee system has not been used since 30 June 2013. These proceedings are being vigorously defended. The potential financial impact of either class action noted above cannot be reliably estimated at this time.

The directors are not aware of any other material contingent liabilities in existence as at 31 December 2017 requiring disclosure in the financial statements.

14. Subsequent events

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

Directors' declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the directors



Stuart Grimshaw
Chairman

Perth, Western Australia
19 February 2018

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

19 February 2018

Dear Directors

Cash Converters International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cash Converters International Limited.

As lead audit partner for the review of the financial statements of Cash Converters International Limited for the half year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Cash Converters International Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2017, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 22.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Cash Converters International Limited's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cash Converters International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration


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

Deloitte.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



David Newman

Partner

Chartered Accountants

Perth, 19 February 2018