



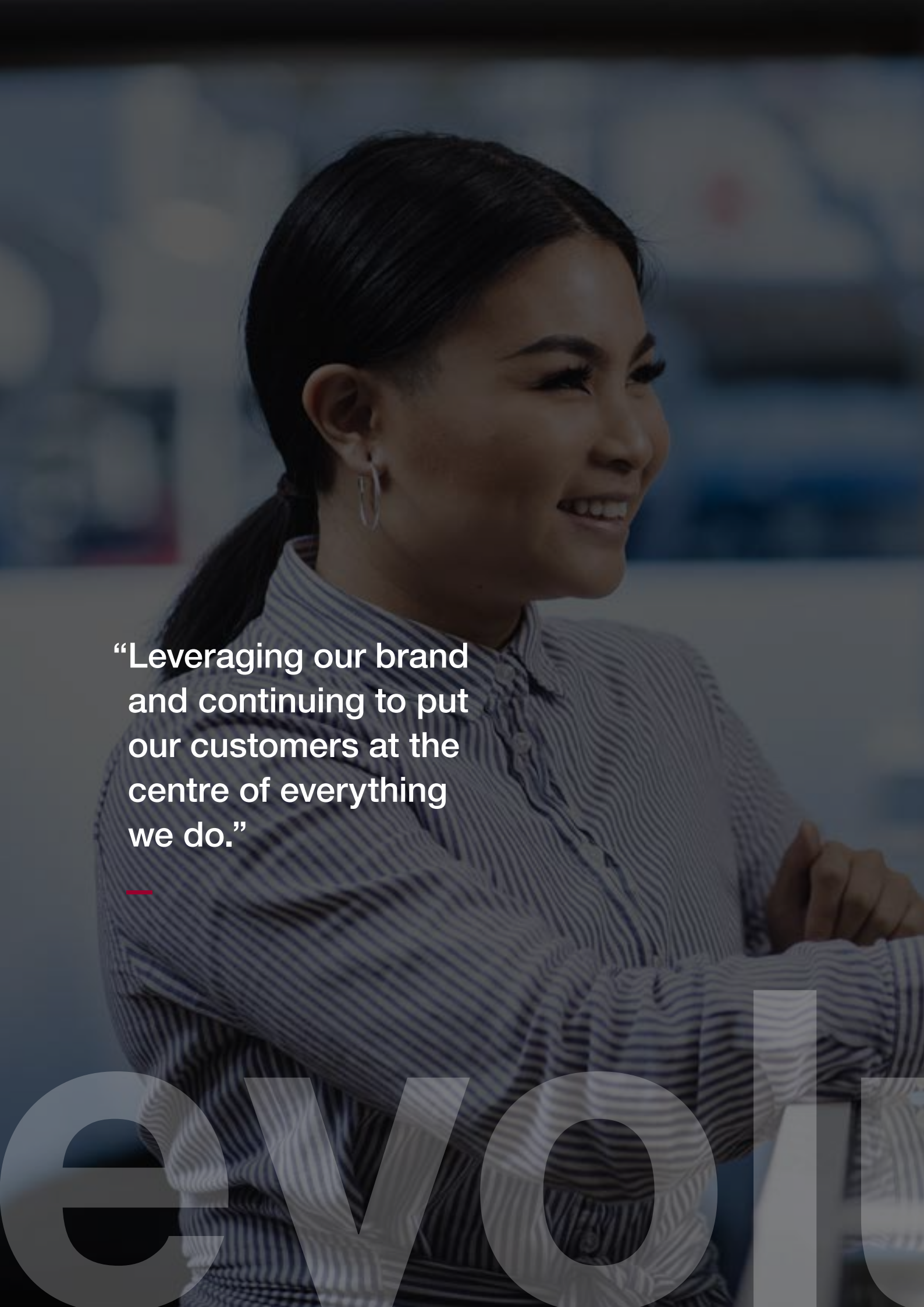
Annual Report

For the year ended 30 June 2018

Cash Converters International Limited

ABN 39 069 141 546





“Leveraging our brand
and continuing to put
our customers at the
centre of everything
we do.”

evolve

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“Laying the foundations to be Australia’s most trusted personal finance provider and second hand goods retailer.”

CORPORATE DIRECTORY

Directors

Mr Stuart Grimshaw
Non-Executive Chairman

Mr Peter Cumins
Executive Deputy Chairman

Ms Ellen Comerford
Non-Executive Director

Mr Kevin Dundo
Non-Executive Director

Mr Lachlan Given
Non-Executive Director

Ms Andrea Waters
Non-Executive Director

Company Secretary

Mr Brad Edwards

Registered and principal office

Level 18, Citibank House
37 St Georges Terrace
Perth WA 6000
Australia
Tel: +61 8 9221 9111
Web: www.cashconverters.com

Share registrar

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000
Australia
Tel: 1300 850 505

Auditors

Deloitte Touche Tohmatsu
Brookfield Place, Tower 2
123 St Georges Terrace
Perth WA 6000
Australia

Stock Exchange

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth WA 6000
Australia
ASX code: CCV

CHAIRMAN'S REPORT

For the year ended 30 June 2018

This year has been quite a formative one for your Company. The profitability has returned to its growth phase after dealing with certain changes in regulatory requirements over the past few periods. These structural changes have enabled us to diversify our revenue streams through the introduction of new products such as MACC and the enhanced GLA product which further connect us to our customers.

We still face headwinds in acceptance of our existence from the major banks as evidenced by their forthright refusal to offer banking facilities to our listed parent company. While no formal comment has been made to us regarding the withdrawal of banking support, it does appear that their view is one of them being a superior provider of financial services such that they do not want to be associated with us. I believe the major banks refer to this as “reputational risk” to them.

However, our customers have bank accounts with these major banks and, by depositing their money with them, are in fact lending to them. Whilst our customers lend to the major banks, the banks will not provide credit to them which is where we come in. To some degree, our business is enhanced due to the nearsightedness of their business models. We provide the cash needs for our customers with such provision of credit overseen and administered by the regulatory authorities. We have invested heavily in our risk and compliance departments over the past twelve months to ensure the consistent and compliant application of lending practices to our customers.

We are proud of how we have developed our business model to meet the needs of our customers and the feedback we receive from them is strongly appreciative of being there for them. Many times, they hear “no” and we are the one place that treats them with dignity and respect consistently. In this regard, we are grateful to the major banks for determining our customers are not worthy of their service.

I mentioned previously that we apparently represent a reputational risk to the major banks as we deal with customers they prefer not to deal with. My past letters, in previous reports, have talked around many of the issues that I perceived existed within the quadropoly environment of the big four. The Royal Commission has exposed some of the failings that exist within the operation of these institutions, and the wider financial services environment, such that one wonders whether it is our customers taking reputational risk dealing with these banks.

Relying upon an algorithm to approve loans was something we did for some years and the regulator pointed out to us that this was something that could not be relied upon and due enquiry and process should be followed. We changed our process accordingly and yet the major banks continued to utilise the same process despite the fact that the regulators had taken a position on loan approval processes. It may appear that nonchalance has led the major banks to believe that their approach to all facets of their business has been first class and impeccable. However, given the amount of money invested in risk and compliance departments it is interesting to surmise what exactly they have been overseeing.

We have been through some tough times ourselves and are now in a much better position. When the operational issues came to the fore with us, you could hear the major banks saying, “I told you so” and shaking their heads. The headlines that have been daily news reading for the past six months have shaken the financial services industry to its

core. The concerning parts really are around the consistent misleading practices undertaken by these same institutions that deem your Company to be a risk to deal with. Charging fees on dead customers, originating loans via cash rebates or bonuses, and the list goes on are not something the industry should be proud of. Placing profit before the customer had become the norm in the industry and we will now start to see some rational behaviour return. The incentive schemes will change but it is reasonable to proffer a view that the profit growth of these companies will also slow. We have already seen a reaction from major banks in the reduction of interest only loans, a “tightening” of credit in loan approvals, revised broker compensation, a reduction/removal of sales incentive programs, and this is only the start. What will take some time to change is the fundamental culture that has arisen around a sales and profit environment to one where the customer is central to the long-term value of the Company.

The governance environment that currently exists is one where the paperwork received at Board level is so voluminous that it is overwhelming. Yet despite the increasing governance oversight, few of the issues identified by the Commission appear to have made it into the Board environment from management. It would appear that the operational environment within which many companies operate has become removed from close scrutiny and the form over substance governance approach seems to have become widely accepted as appropriate.

At Cash Converters, we have quite a complex environment that has a mix of serving our customers via corporate store ownership and a franchised network structure. When operated as intended, the mix of these two channels works very well, however, your Board is aware that due enquiry can only ensure that the customer is not being inconvenienced. We are also reviewing the store and executive compensation metrics to ensure that a balanced focus that strengthens our culture around our customers and supports our employees in meeting the needs of our customers continues to evolve and improve.

The four key principles that have been foremost in my past letters seem appropriate to remind us of just how important we are to our customers:

1. We respect our customers and without us, they have to borrow from friends and families, or worse, from the lower skilled parties in the shadow finance industry;
2. We are transparent on pricing which is governed by a high degree of regulatory oversight and imposed legislative conditions. The Commission has highlighted the weakness in large financial services firms in relation to transparency of pricing of products and services;
3. Continued investment in data and technology will continue to enhance and improve our credit underwriting processes;
4. The demand for credit from our customers will not disappear. Discussion continues about how to restrict lending to this customer segment without informed positioning. The need for credit from our customers often relates to the criticality of a medical emergency, a car repair that must be done to enable them to work, a family emergency, a large utility bill and the list goes on. Lending responsibly and respectfully is the focus of the Company.

We finished the year with a couple of personnel changes to the Company, the departure of our CEO Mr Mark Reid and the Chair of the Remuneration Committee, Ms Ellie Comerford. Mark took the reigns of the Company at a time that required a rebuild of the governance infrastructure and refocusing of the strategy of the Company. We have been able to achieve these objectives as well as strengthen the balance sheet.

Ellie has worked tirelessly for your Company in structuring a remuneration environment that aligns to the interests of both customers and shareholders. This has been a very complex process to follow and we are now in a position that has set the Company on the path that ensures that the appropriate governance processes are in place and the strategy of the Company is consistent with sound market-based remuneration principles.

We all wish Mark and Ellie the best in their future endeavours and thank them for their commitment to the Company.

In conclusion, the success of the Company could not be achieved without the great staff we have, coupled with the support of our customers. To them, we say thank you and to you, the shareholders, we continue to be gratified by your support which we take very seriously.

Sincerely,



Stuart Grimshaw
Chairman



HIGHLIGHTS

For the year ended 30 June 2018



Growth across all loan books,
increasing 49.7%



Outsourcing of all collections
activity to Collections House
(ASX:CLH) as of 30 June 2018



Online corporate
store retail
sales up 12.0%



New Personal
Finance website
deployed

Net Profit After Tax
of \$22.5m, up 9.1%



ASIC Enforceable Undertaking
(EU) successfully closed out
February 2018



GLA maiden
profit delivered.
Revenue up 30.7%



United Kingdom

United Kingdom operating as a master
franchise. UK operations contributed
\$3.221m of EBITDA to the group



New Zealand

The Company has a 25% equity investment
in New Zealand. EBITDA increased to \$846k
up from \$314k in the prior year





GEM

Insights ∞ Customers ∞ People

Cash Converters voice of customer program, GEM was launched to the store network in August 2017. The vision of the program is to put our customers and our people first. By listening and responding to feedback we will create positive experiences and put the customer at the heart of everything we do. GEM aims to provide insight that inspires change and create a culture where our day-to-day purpose is always connected to the customer experience.

“The introduction of GEM has given the Store Managers the ability to review and action insights provided to them from their customers. Managers can surprise and delight their existing customers loyal to our business.”



**Net Promoter
Score 57.4**

(At 30 June 2018)



**70%
Promoters**



**83,208
survey responses**



**Overall
experience = 9.0**

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2018

Cash Converters International Limited (the Company) and entities controlled by the Company and its subsidiaries (the Group) is a diverse group generating revenues from franchising, store operations, personal finance and vehicle finance, supported by a corporate head office in Perth, Western Australia. The Company operates in Australia and the United Kingdom and also has an equity interest of 25% in Cash Converters New Zealand. There is a franchise presence in a further 15 countries around the world.

Financial Performance

The Company reports a full year net profit after tax of \$22.503 million compared to a prior year profit after tax of \$20.618 million, an increase of 9.1%. Whilst revenue was down from \$271.241 million in 2017 to \$260.345 million for the current financial year, this aligned with expectations as the changes introduced to the lending operations in the prior year took full effect, with the reduction in lending volumes during the prior year leaving a much lower opening balance in personal loan receivables and cash advance loans outstanding in stores. The Green Light Auto business offset some of the decline in other revenue, as the continued growth of the vehicle finance book saw its revenue increase by 30.7% on the prior year. The full year result reflects a stronger than anticipated second half of the year, delivered in a difficult industry environment. The second half net profit after tax increased by 40% on the first half of the year, reflecting growth in the Green Light Auto (GLA) vehicle finance division and continued revenue momentum from the Medium Amount Credit Contract (MACC) loan book within the personal finance division.



**FULL YEAR NET PROFIT
AFTER TAX OF \$22.5M**



9.1%

Despite the decrease in revenue, the business saw EBITDA for the group increase to \$49.776 million, up 8.9% from \$45.725 million in FY 2017. In addressing the revenue challenge, the business focussed on operational efficiencies, performance improvements and a greater attention to cost management to ensure an overall increase in business profitability. The changes to the credit assessing process and the ensuing reduction in the loan book also saw a reduction in the rate of bad debt expense for the year, with net bad debt for personal finance down from 18.4% of principal advanced to 15.2%. With the successful closure of the Enforceable Undertaking entered into with ASIC in FY 2017, the additional overheads incurred in the prior year were not repeated and, together with a reduced legal spend, saw the head office EBITDA loss reduce by 11.8%.

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

	Segment revenues		Segment EBITDA results	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Franchise operations	19,606	20,199	12,404	10,490
Store operations	118,540	124,222	15,787	17,549
Personal finance	109,490	117,191	46,677	49,472
Vehicle financing	11,969	9,161	2,574	(408)
Totals before head office costs	259,605	270,773	77,442	77,103
Head office	740	468	(27,666)	(31,378)
Totals after head office costs	260,345	271,241	49,776	45,725
Depreciation, amortisation and impairment			(7,683)	(8,123)
Finance costs			(10,822)	(9,404)
Profit before income tax			31,271	28,198
Income tax expense			(8,768)	(7,580)
Profit / (loss) for the year			22,503	20,618

Significant events

A significant milestone in the current year was the closure of the Enforceable Undertaking that was entered into in November 2016. With the approval of ASIC, an independent expert was appointed to conduct a thorough review of the Company's current responsible lending practices and its obligations under its Australian Credit License. The review did not identify any deficiencies nor result in any recommended actions for the Company to achieve compliance. It did recommend several best practice enhancements which the Company implemented fully. ASIC confirmed that no further work is required by the Company under the Enforceable Undertaking. As part of the Enforceable Undertaking, the Company paid ASIC infringement penalties (provided for in the FY 2016 financials) and during the current year completed the successful remediation of eligible customers.

The Company also closed out other legacy matters with ASIC in relation to its historic collections practices, through an agreed community benefit payment of \$650,000. Through the agreement, Cash Converters further enhanced its collections activity with the migration of the store-based Cash Advance collections and Green Light Auto (GLA) collections activity to Collection House (ASX: CLH).

During the year the business reviewed its funding arrangements, and two key strategic outcomes were achieved. Firstly, the business executed an amendment to its securitisation facility. The amendment saw the overall facility limit increase from \$100 million to \$150 million, with the availability of utilising the additional funding through the activation of two tranches of \$25 million over the following 18 months. In addition to the increased limit, the eligibility criteria of the receivables funded under the facility was extended to include the Medium Amount Credit Contract (MACC) loans, which are larger loans of between \$2,000 and \$5,000 and the vehicle loans financed by GLA. With the amendment taking effect in December 2017, the facility term was also reset for a further 3 years with an option to extend for a further 2 years. This revised facility gives the business the capability to fund the growing MACC and GLA loan books in addition to historic Small Amount Credit Contract (SACC) loans, which was the extent of the facility's eligibility at inception.

The second strategic decision looked to address the upcoming maturity of the \$60 million bond held through FIIG securities, due to be repaid in September 2018. Whilst options were available to refinance the bond, the terms offered were not as favourable as the existing facility and it was therefore agreed by the Board that the business look to the equity market to raise capital to repay the bond. The Company announced a fully underwritten non-renounceable entitlement offer on 30 May 2018 to raise \$39.5 million. The offer closed on 18 June 2018 and 123,288,356 new fully paid ordinary shares in Cash Converters were issued under the entitlement offer, at an issue price of \$0.32 per share.

The entitlement offer was well supported by eligible shareholders. Eligible shareholders (excluding EZCORP, Inc. ('EZCORP')) applied for:

- approximately \$12.8 million worth of New Shares (representing approximately 48% take-up); and
- a further approximately \$0.75 million of additional New Shares under the oversubscription facility (up to a maximum of 50% of their entitlement).

The Company's major shareholder, EZCORP, took up its full pro rata entitlement of approximately 31.75% of the New Shares, representing approximately \$12.5 million, and applied for a further approximately \$5.9 million worth of New Shares through the Oversubscription Facility.

The approximately \$7.4 million worth of New Shares that were not taken up by eligible shareholders were allotted to sub-underwriters of the Entitlement Offer pursuant to the underwriting agreement between the Company and Hartleys Limited.

After allocation of issue costs, the net cash received of \$37.966 million will be used in conjunction with existing operating cash balances to repay the FIIG bond upon its maturity date.

The reported financial performance includes transactions that the Company categorises as outside its normal operating activity and has listed these in the table below, to provide a 'Normalised EBITDA' that more accurately reflects the underlying performance of the business.

 **EBITDA OF \$49.8M**

 **8.9%**



EBITDA from continuing operations

Normalisation adjustments:

Restructure costs

Release of share-based payments accrual for lapsed LTIs

Compliance provision and associated expenses

Class action legal fees

EBITDA normalised

2018 \$'000	2017 \$'000
49,776	45,725

–	1,740
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(1,330)	–
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–	2,088
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2,749	3,973
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51,195	53,526
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OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2018



SACC LOAN BOOK OF \$85.6M



19.4%

For the prior year the compliance provision and associated costs of \$2.088 million relate to the additional costs associated with the call centre deployed to manage the remediation program, the costs of the independent expert and changes made to systems to meet the reporting requirements of the EU.

The Class action legal fees of \$2.749 million in the current year (2017: \$3.973 million) relate to the ongoing defence of the Queensland Class actions.

In the current year, due to the business not meeting the vesting criteria on the long-term incentive (LTI) plan for the options issued in FY 2016, whose measurement period ended 30 June 2018, \$1.330 million of costs previously expensed in relation to the tranche of options linked to normalised earnings per share growth (NEPSG) were credited back to profit and loss. A further \$764 thousand of costs associated with the tranche of options linked to market linked total shareholder return vesting condition, were credited directly to retained earnings in accordance with the accounting treatment prescribed by AASB 2.



PAWN LOAN BOOK OF \$10.6M



6.3%

Franchise operations

Franchise operations encapsulate royalties and licence fees from 15 countries, franchised Cash Converters operations, as well as Cash Converters UK Ltd (CCUK), a wholly owned subsidiary of the Company, which operates as master franchisor to 196 (2017: 196) UK franchisee operated stores. This segment also includes fees from 84 (2017: 83) franchisee owned stores in Australia.

The total number of franchised stores globally now stands at over 650, with 84 stores in Australia, 196 in the UK and 380 throughout the rest of the world. The Company continues to look for opportunities to expand its franchise network, both in Australia and internationally. The performance of this segment remains steady with long-term franchise agreements in place driving consistent year on year revenue.

EBITDA for the franchise operations for the year was \$12.404 million, an increase of \$1.914 million (18.2%) over the prior year. CCUK reported full year EBITDA of \$3.221 million (2017: \$1.746 million), which reflects the 49 previously corporate owned stores that were sold to franchisees at the end of FY 2016 but had their franchise fees waived for the first year, now all paying full fees in FY 2018.

Australian franchise operations contributed \$4.165 million of revenue (2017: \$4.074 million). The franchisee businesses continue to drive strong earnings, although facing a challenging retail environment causing a slight decline in retail revenue, the franchise network has achieved an increase to their pawn broking loan books and interest income during the year.

International franchise revenues of \$643 thousand during the year were \$96 thousand lower than the prior year. In addition to the franchise fee revenue, the Franchise segment also includes the New Zealand operations, in which the Company holds a 25% equity interest. New Zealand's operation has continued its steady growth, particularly in its lending business, to bring the equity investment contribution to EBITDA of \$846 thousand, up from \$314 thousand in the prior year.



MACC LOAN BOOK OF \$34.0M



154.6%



PERSONAL FINANCE LENDING
VOLUMES OF \$180.9M



22.4%



Store operations

Store operations combines the performance of the 69 Company-owned Cash Converters stores in Australia. Revenue from these stores is derived from the retailing of new and second hand goods both in-store and online, as well as interest from pawn broking loans and cash advance short-term loans. Stores also receive commission from successful personal loan applications processed in-store and referred to the Company's Personal Finance business. Store operations also receive a share of income from successful online loan applications.

The stores in Australia face a continuing challenge across the network, being impacted from both a tough retail environment in stores and still adjusting to the changes to the unsecured lending business that were rolled out in FY 2017. The stores contributed a segment EBITDA of \$15.787 million, a decrease of \$1.762 million from the FY 2017 result. This decrease was largely driven by a 22.1% reduction in cash advance lending, which saw revenue reduce by 27.0%, as the changes introduced in April 2017 through the new Income and Expenditure application process took full effect. This was partially offset by a 10.5% increase in personal loan commissions.

Overall retail sales decreased by 2.5% during the year to \$72.963 million. This decrease was felt specifically in store, as online sales continued to improve, up 12.0% to \$7.093 million. Online retail is now contributing 9.7% of all retail sales, up from 8.5% in 2017.

Pawn broking lending remained flat for the year, with only a slight improvement in revenue, up 1.1% on the prior year. At the end of FY 2018 the Company launched a new marketing campaign, 'Flip It', to reimagine pawn broking, the first campaign specifically aimed at pawn broking in over 10 years. The benefits are expected to materialise through the following year.

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2018



GREEN LIGHT AUTO LOAN BOOK OF \$42.1M



109.3%



Personal finance

The personal finance operations incorporate the trading results of Mon-E Pty Ltd (Mon-E) and Cash Converters Personal Finance Pty Ltd (CCPF). Mon-E is responsible for providing the software platform and administration services for the Cash Converters network in Australia to offer small cash advance loans to their customers (average loan size of \$426, 2017: \$398) and refer personal loans from stores to CCPF for assessing.

The cash advance principal loaned is financed by the corporate stores and the individual franchisees for the cash advances provided by their stores. Mon-E receives commission from the store network for each cash advance processed through their systems as a percentage of fees earned by the store and successfully collected.

CCPF provides unsecured loans originated through the franchise and corporate store networks and directly from customers online. The loans are underwritten, and the principal funded, by CCPF, which pays a commission to the stores (both corporate and franchise) for the generation of the lead and processing the application in-store. The business offers two loan types referred to as SACC (Small Amount Credit Contracts) and MACC (Medium Amount Credit Contracts). SACC loans range from \$400 to \$2,000, for a duration between 4 and 12 months, with a default 9-month term. The average size SACC loan is \$1,149 (2017: \$1,044). MACC loans range from \$2,000 to \$5,000, and can be from 4 to 24 months' duration, with a default term of 9 months. Average MACC loans for the year were \$3,606 (2017: \$3,693). Segment EBITDA from this division for the year was \$46.677 million (2017: \$49.472 million), down \$2.795 million (5.6%) on last year.

As reported in the prior year, the personal finance business made substantial changes to its operating model in FY 2017 that saw a comprehensive review of its underwriting process and related risk

appetite. Following this review, the business launched the larger MACC loans and rolled out a new assessing platform to automate the analysis of customer bank statements and application details to accurately and efficiently assess income and expenditure as required under our responsible lending obligations. Cash Converters does not determine a decision based on any benchmarks when assessing a Personal Finance loan applicant irrespective of loan amount size, instead analysing actual bank statement transactions to determine an accurate position of affordability. All loan approval decisions are manually determined in respect of the Company's responsible lending obligations.



**CORPORATE EXPENSES
DOWN REFLECTING
TIGHTER EXPENSE CONTROL**



11.8%



Whilst the introduction of the new Income and Expenditure platform saw a decrease in SACC lending, with principal advanced down 5.1% on the prior year, the launch of the MACC loans in November 2016 more than compensated for this decline, with an increase in MACC lending to \$54.935 million in FY 2018, an increase of 265% on the prior year. This, combined with SACC lending, produced an overall increase in principal advanced of 22.4% to \$180.851 million for the year.

The combined loan book has increased during the year by 40.6% from \$81.355 million at June 2017 to \$114.406 million. However, due to the revenue recognition of the loans being spread over the life of the loans, and starting from a lower opening balance with gradual growth through the year, the overall revenue from personal finance is down 6.5% to \$104.607 million (2017: \$111.849 million).

With the growth in MACC lending coming more from the store-based applications (61.5% store-based advances), the overall weighting of the channel between online and in-store has moved slightly towards stores. However, it is notable that application volumes online have increased but with the greater focus on quality loans, the approval rate for online is significantly lower, resulting in fewer loans advanced. Across the division, total loan applications are up 8.4% year on year. At 30 June 2018, 54.6% of the loan book outstanding relates to store-based lending, up from 51.9% at 30 June 2017.

The business continues to work with Collection House as its collection partner, utilising their industry expertise and technology to continually improve the collection process whilst continuing to ensure the business meets its regulatory obligations. With 2018's focus on improving the quality of the loan book and more rigorous assessing criteria, it is pleasing to see that despite the reduced revenue, the impact on bad debt has been positive, with gross SACC bad debts written off down 21.3% on the prior year. With the rapid growth of the MACC loan book, there has been an absolute increase in the MACC bad debts, but when combined with the overall movement in the lending for the year, net bad debt expense (the net of bad debt expense, provision for doubtful debts and bad debt recoveries) as a percentage of principal advanced has reduced from 18.4% in FY 2017 to 15.2% in FY 2018.



**INCREASED SECURITISATION FACILITY
TO \$150M UNTIL 2020 WITH THE ABILITY
TO FUND GROWTH IN MACC AND GLA**

\$150m



OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2018

Vehicle financing

Green Light Auto Finance (GLA) is the Company's vehicle financing business, offering a range of secured automotive loans through a network of brokers, car dealerships, Cash Converters stores and direct to customer online. GLA's product offerings are loans from \$5,000 to \$50,000 for a term up to 7 years. In the current year the average loan value was \$18,054 (2017: \$18,322) with an average term of 54 months (2017: 56 months). During the year the business expanded its offering to include financing for private vehicle sales and for motorcycles.

Having launched the auto loan model in March 2016, the business is pleased to report the loan book at 30 June 2018 has increased by 109.3% to \$42.070 million over the year. This has led to an EBITDA contribution of \$2.574 million, up from a reported EBITDA loss in FY 2017 of \$408 thousand, making FY 2018 GLA's first profitable year. Total revenue from vehicle financing is up 30.7% to \$11.969 million, with loans advanced totalling \$26.305 million.

During the year GLA successfully completed the migration of its loan management platform to the core CCPF platform, which sets the foundation for the scalability needed to continue the growth of the vehicle finance business. In conjunction with this, the business deployed its version of the Income and Expenditure process to determine loan affordability in line with the GLA assessing criteria and assisting with the risk-based pricing of the vehicle loan product.

The discontinued Carboodle lease business continues to naturally wind down as leases come to an end. The total number of outstanding leases at 30 June 2018 was 230 (2017: 435). These remaining leases are scheduled to complete over the next 18 months, and represent \$1.472 million of receivables on the balance sheet (2017: \$3.700 million).



**PERSONAL FINANCE NET
BAD DEBT DOWN TO
15.2% OF OUTGOINGS**

15.2%



**FRANCHISE OPERATIONS
DELIVERED EBITDA OF \$12.4M**



18.2%

Corporate costs

Corporate costs consist of corporate related activities, such as IT, Business Development, Finance, HR, Risk and Internal Audit, Legal, Marketing, Board and leadership team. During the year, corporate costs decreased by 10.8%, largely due to a \$1.330 million credit for lapsed LTI options where the share-based payment expense was reversed, and a \$1.224 million lower spend on legal fees associated with the Queensland class action. The business also benefited from increased interest income from bank deposits, which is allocated to the Head Office segment EBITDA. Other costs remained relatively consistent as the focus remains on investing in the long-term growth of the business, whilst continuing to monitor costs and efficiencies where possible.

Financial Position

	2018 \$'000	2017 \$'000
Summarised Financial Position		
Cash at bank	139,991	80,571
Loan receivables	151,724	101,970
Other receivables	28,261	31,051
Inventories	20,673	20,991
Other assets and intangibles	168,480	164,262
Total assets	509,129	398,845
Borrowings	158,347	107,237
Other liabilities	28,374	30,769
Total liabilities	186,721	138,006
Total equity	322,408	260,839
Operating cash flow	(21,549)	43,534
Gearing (net debt/equity)	6.1%	10.2%
Basic earnings per share (cents)	4.55 cents	4.21 cents
Return on equity	7.0%	7.9%

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2018

Receivables (trade and personal loans)

Outstanding loan receivables (personal loans and vehicle finance loans) for the year have increased from \$101.970 million to \$151.724 million, due largely to the significant increase in MACC and vehicle loans during the year. Other trade receivables reflect the continued run-off of the Carboodle leases and the scheduled 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 to invest in its digital transformation, with \$7.458 million of capitalised software development incurred during the year (2017: \$7.325 million). Following an increase in FY 2017, inventory levels have steadied in FY 2018, with aged stock being a focus for store operations.

Borrowing and gearing

As reported under significant events, the Company has successfully secured an amendment to its securitisation facility with Fortress Investment Group, increasing the facility limit to \$150 million and extending the eligibility to include the MACC and GLA loans. At 30 June 2018 the facility was drawn to \$99.500 million (2017: \$45.500 million), a net increase in borrowings of \$54.0 million.

The FIIG Securities bond of \$60 million has a maturity date of 19 September 2018, at which point the Company will repay the full amount using available cash reserves.

With the increased cash on balance sheet following the additional draw down from Fortress and the capital raise completed in June 2018, the net debt position at 30 June 2018 is \$19.509 million (2017: \$26.666 million) and the gearing ratio has reduced to 6.1% at 30 June 2018 (2017: 10.2%).

Cash flows

With the substantial increase in MACC and GLA lending in the year, which are typically longer-term loans, the operating cash flow has been a net outflow of \$21.549 million, quite different from the prior year which saw overall loan book volumes reduce and hence an increase in operating cash flow of \$43.534 million.

The cash and cash equivalents reported of \$139.991 million includes the \$37.966 million net proceeds from the non-renounceable entitlement issue completed in June 2018. When deducting the committed balance to repay the FIIG bond of \$60 million and the restricted cash held as security for the transactional banking facilities together with cash held in trust for the securitisation facility, free cash remains of \$69.766 million, up from \$59.988 million the previous year.

Outlook

With FY 2017 being the year of transformation, FY 2018 was a foundation year upon which the strategic growth of the business will be built. Looking ahead, the opportunity to execute across all pillars of the Company's strategic plan is present. At its core, there is digital transformation, with a new lending site deployed in 2018, and in the year ahead the new e-commerce site will launch replacing the now 10-year-old 'Webshop', building on already record online retail volumes. The Company's customer engagement program will step up a gear and see the implementation of text analytics of customer feedback to drive new operational and product improvements. The appointment of a new head of the store network, General Manager Corporate Distribution, Ben Cox, will bring a wealth of knowledge from his successful Cash Converters franchise in the UK, to bear on the Australian store network, bringing renewed energy to the core functions of buy, sell and pawn.

Technology will continue to play a key part in the ongoing expansion of Green Light Auto's vehicle financing operations, to ensure its support operations can efficiently scale with its loan writing growth. Similarly, CCPF's personal finance offering will look to optimise the customer experience with advancements made to system automation, machine learning and enhanced payment processing. Strategically, the Company will continue to broaden its product offering beyond SACC which ends FY 2018 at less than 50% of the combined loan book (down from 89% in FY 2016) to attract a new customer demographic to the business, leveraging scale to control costs and optimise marketing returns.

The business will also continue to pursue opportunities to expand its store network in Australia and the UK as franchisees express the desire to add to their store numbers. Development of the international Cash Converters network is also a key strategic opportunity to continue to explore in the year ahead.

ADDITIONAL SECURITYHOLDER INFORMATION

As at 25 September 2018

1. Number of holders of equity securities

(a) Distribution of holders of equity securities

	Holders Number	Fully paid ordinary shares Number
1 to 1,000	731	346,967
1,001 to 5,000	1,522	4,273,537
5,001 to 10,000	891	6,972,971
10,001 to 100,000	1,516	48,051,568
100,001 and over	248	556,792,903
	4,908	616,437,946

(b) Voting rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(c) Less than marketable parcel of shares

The number of shareholders holding less than a marketable parcel is 1,067, given a share price of \$0.315 per share.

(d) Substantial shareholders

Ordinary shareholder	Number of shares	% of issued shares
EZCORP Inc	214,183,714	34.75
Adam Smith Asset Management	42,945,495	6.97

2. Twenty largest equity security holders

Ordinary shareholder	Number of shares	% of issued shares
1. EZCORP Inc	214,183,714	34.75
2. HSBC Custody Nominees (Australia) Limited	136,045,813	22.07
3. Citicorp Nominees Pty Limited	43,809,153	7.11
4. JP Morgan Nominees Australia Limited	33,382,195	5.42
5. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	20,361,692	3.30
6. BNP Paribas Noms Pty Ltd <DRP>	13,657,346	2.22
7. National Nominees Limited	10,900,154	1.77
8. Riolane Holdings Pty Ltd <Cumins Super Fund A/C>	6,795,226	1.10
9. Mr Noel D'Souza + Mrs Christine D'Souza <Mandovi Super Fund A/C>	2,051,156	0.33
10. Investment Custodial Services Limited <990048401 A/C>	1,875,000	0.30
11. Mr Frederick Benjamin Warmbrand <FB & LJ Warmbrand Super A/C>	1,805,774	0.29
12. NCH Pty Ltd	1,680,333	0.27
13. Mrs Lilian Jeanette Warmbrand	1,504,825	0.24
14. Dorran Pty Ltd	1,500,000	0.24
15. Mr Craig Graeme Chapman <Nampac Discretionary A/C>	1,474,454	0.24
16. Neweconomy com au Nominees Pty Limited <900 Account>	1,467,200	0.24
17. Vadina Pty Limited <Jordan Super Fund A/C>	1,420,000	0.23
18. Ms Choi Chu Lee	1,250,000	0.20
19. Sporrán Lean Pty Ltd <Sporran Lean S/F A/C>	1,199,999	0.19
20. Mr Kamil Umit Yesilyurt	1,187,500	0.19
	497,551,534	80.71

DIRECTORS' REPORT

For the year ended 30 June 2018

The directors of Cash Converters International Limited submit the following report of the Company for the financial year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about directors

The following persons held office as directors of the Company during the whole of the financial year and until the date of this report unless otherwise stated:



Mr Stuart Grimshaw
Non-Executive Chairman

Appointed director 1 November 2014
Appointed Chairman 10 September 2015

Mr Grimshaw joined the Board in 2014 and was appointed Non-Executive Chairman on 10 September 2015. Mr Grimshaw is currently the Chief Executive Officer of EZCORP Inc. Prior to joining EZCORP in November 2014, Mr Grimshaw was the Managing Director and Chief Executive Officer of Bank of Queensland Limited (BOQ).

During his tenure at BOQ he initiated fundamental changes to BOQ's culture, operating model and strategic direction and established a strong track record of execution. In addition, a strong capital and provisioning strategy resulted in two credit rating upgrades to A-, and BOQ has been well supported by the equity markets with two global equity offerings successfully raising close to \$800 million. In Mr Grimshaw's time at the bank, BOQ attracted and developed exceptional talent across the top four management levels and a unique culture and brand that is now well recognised by the market.

During his 30-year career in financial services, Mr Grimshaw has held a wide variety of other roles across many functions of banking and finance, including eight years at the Commonwealth Bank of Australia (CBA). At CBA, he started as Chief Financial Officer and over time became Group Executive, responsible for core business lines including Institutional and Business Banking as well as Wealth Management (Asset Management and Insurance). Prior to joining CBA, he worked for the National Australia Bank and was the Chief Executive Officer of Great Britain, with responsibility for large UK consumer banks Yorkshire Bank and Clydesdale Bank.

Mr Grimshaw represented New Zealand at the 1984 Olympics in Field Hockey and has a Bachelor of Commerce and Administration (Victoria University, Wellington, New Zealand) and an MBA (Melbourne University, Australia). He has also completed the Program for Management Development at Harvard Business School.

Over the past 3 years Mr Grimshaw has held directorships with the following listed company;

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
EZCORP Inc	3 November 2014	–



Mr Peter Cumins
Executive Deputy Chairman

Appointed director April 1995
Appointed Executive Deputy Chairman 23 January 2017

Mr Cumins joined the Company in August 1990 as Finance and Administration Manager when the Company had just 23 stores, becoming General Manager in March 1992. He became Managing Director in April 1995. Mr Cumins moved from this role to the role of Executive Deputy Chairman on 23 January 2017.

Mr Cumins is a qualified accountant, and has overseen the major growth in the number of franchisees in Australia as well as the international development of the Cash Converters franchise system. His experience in the management of large organisations has included senior executive positions in the government health sector, specifically with the Fremantle Hospital Group, where he was Finance and Human Resources Manager.

Over the past 3 years Mr Cumins has held a directorship with the following listed company:

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
EZCORP Inc	28 July 2014	–



Mr Lachlan Given
Non-Executive Director

Appointed director 22 August 2014

Mr Given joined the Board in 2014. He is the Executive Chairman of EZCORP Inc (a major shareholder in the Company) and also a Director of The Farm Journal Corporation, a 134-year-old pre-eminent US agricultural media company; Senetas Corporation Limited (ASX: SEN), the world's leading developer and manufacturer of certified, defence-grade encryption solutions; CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; and RateCity.com Pty Ltd, one of Australia's largest internet based financial services comparison organisations.

Mr Given began his career working in the investment banking and equity capital markets divisions of Merrill Lynch in Hong Kong and Sydney where he specialised in the origination and execution of a variety of M&A, equity and equity-linked and fixed income transactions.

Mr Given graduated from the Queensland University of Technology with a Bachelor of Business majoring in Banking and Finance (with distinction).

Over the past 3 years Mr Given has held directorships with the following listed companies:

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
Senetas Corporation Limited	20 March 2013	–
EZCORP Inc	18 July 2014	–

DIRECTORS' REPORT

For the year ended 30 June 2018



Mr Kevin Dundo
Non-Executive Director

Appointed director 20 February 2015

Mr Dundo joined the Board on 20 February 2015. Mr Dundo practises as a lawyer and specialises in the commercial and corporate field, with experience in the mining sector, the service industry and the financial services industry. He is a member of the Law Society of Western Australia, Law Council of Australia, Australian Institute of Company Directors and a Fellow of the Australian Society of Certified Practising Accountants.

Mr Dundo is currently a Non-Executive Director of ASX-listed Imdex Limited (ASX: IMD) and Non-Executive Chairman of ASX-listed Red 5 Limited (ASX: RED).

Mr Dundo is a member of the Company's Audit and Risk Committee and Remuneration and Nomination Committee, and until 24 February 2017 was the Chair of the Audit and Remuneration Committees.

Over the past 3 years Mr Dundo has held directorships with the following listed companies:

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
Imdex Limited	14 January 2004	–
Red 5 Limited	29 March 2010	–



Ms Andrea Waters
Non-Executive Director

Appointed director 9 February 2017

Ms Waters is a Chartered Accountant with an extensive career at KPMG, with 16 years as a Financial Services Audit Partner (until 2012), specialising in managed investments and superannuation. She has extensive experience with audit committees, and using this knowledge, she is a professional non-executive director, with a strong passion for implementing and improving governance and audit structures within business operations. Ms Waters is also an accredited facilitator for Australian Institute of Company Directors' Company Director Course.

Ms Waters is also a non-executive director of My State Limited (ASX: MYS) (also Chair of the group Audit Committee), Bennelong Funds Management Ltd (also Chair of the Audit, Risk and Compliance Committee), Care Super, CityWide Service Solutions (also Chair of the Audit and Finance Committee) and Colonial Foundation Limited. She has previously been a non-executive director of Chartered Accountants Australia and New Zealand, Lord Mayor's Charitable Foundation and Cancer Council Victoria. Ms Waters holds a Bachelor of Commerce from the University of Melbourne, is a Fellow of Chartered Accountants Australia and New Zealand, is a graduate member of the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

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

Over the past 3 years Ms Waters has held directorships with the following listed company:

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
MyState Limited	19 October 2017	–



Ms Ellen Comerford
Non-Executive Director

Appointed director 9 February 2017
Resigned with effective date 30 September 2018

Ms Comerford has over 30 years of financial services experience across a range of banking and insurance businesses. Most recently Ms Comerford was Chief Executive Officer and Managing Director of Genworth Australia, an ASX top 200 listed company, successfully leading the company through an IPO in 2014. She has also held various positions with leading global title and specialty insurance company First American Financial Corporation, both in Australia and internationally, including CEO and Managing Director for the Australian and New Zealand operations, and Chief Operating Officer for the international division. Prior to this, she was at Citigroup for approximately 14 years. Ms Comerford brings significant experience in enhancing performance culture within businesses with a commitment to promoting diversity and she is a member of Chief Executive Women.

Ms Comerford is also a non-executive director of Hollard Holdings Australia and Hollard Insurance Company in Australia and Heartland Bank Limited in New Zealand and certain of its subsidiaries in Australia.

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

Over the past 3 years Ms Comerford has held directorships with the following listed companies:

<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
Genworth Mortgage Insurance Australia Limited	20 February 2012	9 October 2015
Heartland Bank Limited (NZX)	1 January 2017	–

DIRECTORS' REPORT

For the year ended 30 June 2018

Directors' shareholdings

The following table sets out each director's relevant interest in shares and options in shares of Cash Converters International Limited as at the date of this report:

Directors	Fully paid ordinary shares Number	Share options Number
Mr S Grimshaw	–	–
Mr P Cumins	7,575,694	4,572,920
Mr L Given	–	–
Mr K Dundo	–	–
Ms A Waters	68,750	–
Ms E Comerford	–	–

Company Secretary

Mr Brad Edwards

Appointed 30 June 2017

With a background in law, Mr Edwards has extensive private practice and corporate experience, most notably with the Bank of Queensland Group for 15 years, where he held the roles of Company Secretary and General Counsel. His career encompasses financial services, including retail franchising, regulatory matters, dispute resolution and class action litigation, capital markets and mergers and acquisitions.

Principal activities

The principal activity of Cash Converters International Limited and its subsidiaries (the Group) is that of a franchisor of second hand goods and financial services stores, a provider of secured and unsecured loans and the operator of a number of corporate stores in Australia, all of which trade under the Cash Converters name.

Country master franchise licences are also sold to licensees to allow the development of the Cash Converters brand but without the need for support from Cash Converters International Limited.

Review of operations

The Group's net profit attributable to members of the parent entity for the year ended 30 June 2018 was \$22.503 million (2017: \$20.618 million) after a charge for income tax of \$8.768 million (2017: \$7.580 million).

A review of the Group's operations and financial performance has been provided on pages 12 to 20.

Changes in state of affairs

During the financial year the following change occurred within the Group.

Issue of Share Capital – On 30 May 2018 the Company announced a fully underwritten non-renounceable entitlement offer to raise \$39.5 million. The offer closed on 18 June 2018 and 123,288,356 new fully paid ordinary shares in Cash Converters were issued under the entitlement offer, at an issue price of \$0.32 per share.

Subsequent events

The Company has continued to evolve and is positioning itself for future growth. As this re-positioning has occurred, the recognition of the talent of people within the organisation has also become apparent. While it is never preferred to have changes in the Company's structure, we must also recognise that opportunities will be presented to our people, some very attractive. We are seeing this evolve as disclosed below.

On 23 August 2018 the Company announced that Ms Ellen Comerford had submitted her resignation as a Director effective 30 September 2018.

On 27 August 2018 the Company announced that Mr Mark Reid has submitted his resignation as Chief Executive Officer with immediate effect. Chief Operating Officer, Mr Sam Budiselik has been appointed as Interim Chief Executive Officer whilst the Board conduct an executive search for a permanent replacement for Mr Reid.

There have been no other events subsequent to the reporting date requiring disclosure in this report.

Future developments

Likely developments in expected results of the Group's operations in subsequent years and the Group's business strategies are referred to elsewhere in this report. In the opinion of the directors, any further information on those matters could prejudice the interest of the Company and has therefore not been included in this report.

Dividends

On 27 August 2018 the Company announced that there would be no final dividend in respect of the financial year ended 30 June 2018.

No final dividend was paid in respect of the financial year ended 30 June 2017.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

<i>Issuing entity</i>	<i>Number of shares under option</i>	<i>Class of shares</i>	<i>Exercise price of option</i>	<i>Vesting determination date</i>
Cash Converters International Limited	6,358,218	Ordinary	Nil	30 Jun 2019
Cash Converters International Limited	3,461,288	Ordinary	Nil	30 Jun 2020

The performance rights above are in substance share options with an exercise price of nil, which vest and are immediately exercised into ordinary shares once certain performance / vesting conditions are met.

The holders of these performance rights do not have the right, by virtue of the performance right, to participate in any share issue or interest issue of the Company or of any other body corporate.

No shares have been issued as a result of the exercise of share options or performance rights during or since the end of the financial year.

Indemnification and insurance of directors and officers

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORS' REPORT

For the year ended 30 June 2018

Directors' meetings

The number of meetings of directors and meetings of committees of directors held during the year and the number of meetings attended by each director were as follows:

Directors	Board of directors		Audit and Risk Committee		Remuneration and Nomination Committee		Special Purpose Committees~	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr S Grimshaw	15	15	7*	6*	5*	5*	–	–
Mr P Cumins	15	15	7*	6*	5*	5*	–	–
Ms E Comerford	15	15	7	7	5	5	7	7
Mr K Dundo	15	15	7	6	5	5	7	7
Mr L Given	15	15	7*	5*	5*	4*	–	–
Ms A Waters	15	15	7	7	5	5	7	7

* Denotes directors who were not a member of the Committee but attended meetings by invitation.

~ In the current year, the Special Purpose Committee was an independent Board sub-committee convened in relation to the non-renounceable entitlement offer, announced 30 May 2018.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services during the year by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001, as the nature of the services was limited to income tax and indirect tax compliance, transaction/compliance related matters and generic accounting advice. All non-audit services have been reviewed and approved to ensure they do not impact the integrity and objectivity of the auditor, and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6.6 to the financial statements.

Rounding off of amounts

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

Auditor's independence declaration

The auditor's independence declaration is included on page 117.

Remuneration report
(audited)

1. Letter from the Chair of the Remuneration and Nomination Committee
2. Persons addressed and scope of the Remuneration Report
3. Context of and changes to KMP remuneration for FY 2018 and into FY 2019
4. Overview of Cash Converters' Remuneration Governance Framework and strategy
5. Planned executive remuneration for FY 2018 (non-statutory disclosure)
6. Vested / awarded incentives and remuneration outcomes in respect of the completed FY 2018 period (non-statutory disclosure)
7. Performance outcomes for FY 2018 including STI and LTI assessment
8. Changes in KMP-held equity
9. Non-Executive Director fee policy rates for FY 2018 and FY 2019 and fee limit
10. Remuneration records for FY 2018 (statutory disclosures)
11. Employment terms for KMPs
12. Other remuneration-related matters
13. External remuneration consultant advice

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

1. Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders

On behalf of the Board, I am pleased to present our 2018 directors' Remuneration Report for Cash Converters International Limited.

The Board is committed to KMP remuneration being aligned to organisational performance, while ensuring we incentivise and retain employees critical to delivering our strategy. At the same time, we continue to pursue growth plans that will enhance shareholder value.

Financial performance during the year exceeded expectations with a net profit after tax of \$22.503 million being achieved as we continue to transition the business.

FY 2018 was a successful year and a number of milestones were met which contributed to the realisation of our strategy. These include strengthening our digital presence, development and growth of personal finance product offerings and significant capital raising that strengthened the structure of the balance sheet.

The Board had a strong focus on remuneration governance and key outcomes of the execution of our remuneration governance framework include:

- Review of all remuneration governance framework policies;
- Engagement of an independent executive remuneration consultant to assist with salary benchmarking and advice linked to long-term incentives;
- Aligning the measurement of financial measurements for incentive plans to NPAT as opposed to previously used measure of EBITDA so that a greater link was made to shareholder outcomes;
- Reviewing the non-financial measures for executive short-term incentive key performance indicators;
- Amending the vesting criteria for FY 2018 grant offers to ensure an appropriate target index for TSR value;
- Reviewing NED remuneration with the addition of a fee for special purpose committees;
- Approval of a minimum shareholding policy;
- Addition of a risk score gate opener for FY 2019 incentive plans.

Other governance work completed as part of our Remuneration and Nominations Charter included the review of remuneration practices for the organisation as a whole, along with focus on diversity, recruitment, termination and retention practices.

In consideration of industry movement in remuneration practices in the banking and finance industry, the Board has, over the course of FY 2018, and will continue in FY 2019, to review governance and compliance with remuneration policies and practices implemented by the Company with the aim of achieving outcomes expected by shareholders (aligned with shareholder expectations). Linked to understanding and monitoring the role of incentive plans and the behaviours they influence, the Board is committed to continually seeking feedback from both stakeholder and independent consultants with respect to KMP remuneration governance and practices. There will continue to be a strong focus in FY 2019 on the link between the remuneration and risk frameworks to support the incentive plans.

The Board is confident that the remuneration structures in place are an appropriate response to industry and Company circumstances and will enable the continued performance and growth of the Company, with the aim of realising our strategy and the associated shareholder benefits.

Yours faithfully,

Ellen Comerford
Chair, Remuneration and Nomination Committee

2. Persons addressed and scope of the Remuneration Report

This remuneration report forms part of the directors' report for the year ended 30 June 2018 and, in accordance with section 300A of the Corporations Act, provides information in regard to:

- (i) the Company's governance relating to remuneration;
- (ii) the policy for determining the nature and amount or value of remuneration of Key Management Personnel (KMP);
- (iii) the various components of that remuneration;
- (iv) the prescribed details relating to the amount or value paid to KMP, as well as a description of any performance conditions;
- (v) the relationship between the policy and the performance of the Company.

The Company has also provided additional information to assist shareholders in obtaining an accurate and complete understanding of the Company's approach to the remuneration of KMP.

KMP are the non-executive directors (NEDs), executive directors and senior executive employees who have authority and responsibility for planning, directing and controlling the activities of the Company. On that basis, the following roles / individuals are addressed in this report:

Non-executive directors

Position

Mr Stuart Grimshaw	Chairman and non-executive director
Ms Ellen Comerford	Non-executive director Chair of Remuneration and Nomination Committee Audit and Risk Committee member
Mr Kevin Dundo	Audit and Risk Committee member Remuneration and Nomination Committee member
Mr Lachlan Given	Non-executive director
Ms Andrea Waters	Non-executive director Chair of Audit and Risk Committee Remuneration and Nomination Committee member

Executive director

Mr Peter Cumins	Executive Deputy Chairman
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Senior Executives classified as KMP

Mr Mark Reid	Chief Executive Officer
Mr Sam Budiselik	Chief Operating Officer
Mr Nathan Carbone	Chief Risk Officer
Mr Ben Cox	General Manager Corporate Distribution
Ms Myrrhine Cutten	Chief Human Resources Officer
Mr Brad Edwards	General Counsel and Company Secretary
Mr Martyn Jenkins	Chief Financial Officer
Mr Shane Prior	Chief Operating Officer – Stores

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

Appointments / changes that have occurred to the KMP during or since the end of the financial year are:

Ms Ellen Comerford	Ms Comerford resigned as a Director effective 30 September 2018.
Mr Mark Reid	Mr Reid resigned as Chief Executive Officer effective 27 August 2018. Mr Reid's termination payment will include payment in lieu of notice in accordance with his contract, capped at the statutory entitlement under the Corporations Act.
Ms Alice Manners	Chief Digital and Marketing Officer is no longer a KMP as a result of reporting line changes effective 1 January 2018.
Ms Myrrhine Cutten	Ms Cutten became KMP 3 July 2017.
Mr Sam Budiselik	Mr Budiselik became KMP 3 July 2017, and his role was subsequently expanded effective 1 January 2018 to be Chief Operating Officer of the Company. Mr Budiselik was appointed Interim Chief Executive Officer on 27 August 2018.
Mr Ben Cox	Mr Cox was engaged on a maximum term contract as Stores Consultant on 6 March 2018 and appointed on a permanent basis as the General Manager Corporate Distribution effective 27 May 2018.
Mr Shane Prior	Mr Prior resigned and departed the organisation 4 July 2018.

3. Context of and changes to KMP remuneration for FY 2018 and into FY 2019

3.1 Matters identified as relevant context for remuneration governance in FY 2018 and into FY 2019

As is required by regulation, the KMP remuneration structures that are detailed in this report are those that prevailed over FY 2018. The following outlines important context for the decisions that were made in relation to remuneration for / during FY 2018, the outcomes of which are presented in this report.

In light of industry movement in remuneration practices in the banking and finance industry the Board has, over the course of FY 2018, and will continue in FY 2019, to review governance and compliance with remuneration policies and practices implemented by the Company with the aim of achieving quality outcomes for shareholders. Linked to understanding and monitoring the role of incentive plans and the behaviours they influence, the Board is committed to continually seek feedback from both stakeholder and independent consultants with respect to KMP remuneration governance and practices.

In FY 2018, the Board reviewed Key Performance Indicators (KPIs) for KMP executives as they relate to variable remuneration, with a view to mitigating any behavioural and operational risks that may be driven by the current plan. Each KPI scorecard used in FY 2018 for senior executives incorporated components of non-financial operational risk in the weighting mix. As a result of a review in FY 2018 for the FY 2019 measurement period a risk scorecard measurement is intended to be incorporated into the STI Plan as a mandatory gate for all KMP executives. There will continue to be a strong focus in FY 2019 on the link between the remuneration and risk frameworks as part of the variable incentive plans considerations.

The Board is focused on continuing the implementation of its renewed business strategy. To attract and retain the best possible talent to the leadership team, the Company needs to ensure its remuneration offering reflects the complex and diverse nature of the business and the challenges facing the business to achieve its strategic objectives. Independent input on KMP remuneration decision-making processes continued throughout 2018, with promotions and appointments being endorsed by the Board after considering both internal and external relativities using external remuneration consultants Godfrey Remuneration Group Pty Limited (GRG). Remuneration benchmarking was also conducted internally using the external AON Hewitt Data Centre sourced in March 2018. Ongoing benchmarking analysis, on an annual basis, will be conducted in relation to overall remuneration for KMP executives.

During FY 2018 the Board reviewed and approved a general remuneration framework that will guide remuneration governance and policies for all Cash Converters employees. The principles of job evaluation and internal relativities, along with market influences and the performance of the individual will impact on the remuneration package for all individuals. Over the course of FY 2019, following implementation of the general remuneration framework, there will be an emphasis on job evaluation for executive roles that will strengthen the governance of senior remuneration packages so that fair, equitable and non-biased remuneration decisions are made at all times.

3.2 Key remuneration matters identified, and adjustments made or planned in response, since the previous report

During FY 2018 the following KMP remuneration-related matters were identified by the Board and are being considered and/or actioned during the reporting period and into FY 2019:

- Executive KMP remuneration:
 - o A remuneration review of KMP (including Executive Deputy Chairman) was undertaken with the engagement of GRG as appropriate. GRG were predominantly engaged to assist with advice in regard to benchmarking (FAR and Total Package) and review of the LTI plan.
 - o During the year, the Company implemented organisational structure changes that were designed to allow the Chief Executive Officer a greater focus on strategic objectives. With this change, additional portfolios of marketing, information technology and digital transformation were added to the Chief Operating Officer's (COO) role, and as such an adjustment was made to the COO remuneration. The remuneration adjustment was in alignment with policy and appropriate to attract the level of capabilities and expertise for the role. Further, Aon Hewitt Data Centre benchmarking was utilised to support these changes.
 - o Benchmarking of all KMP executives was conducted in FY 2018 to evaluate the remuneration packages appropriate to the specific job responsibilities and ensure alignment with both strategy and shareholder interest and compliance with the Company's remuneration policy.
 - o Gender Pay Gap Analysis was completed as part of an ongoing annual process using the Aon Hewitt data.
 - o Fixed Annual Reward and Total Remuneration Packages were reviewed linked to proposed salary changes for KMP executives in FY 2019. This was completed within the limits of the remuneration framework.
- Variable incentive programme:
 - o For FY 2018, each KMP Executive was subject to a formal Short-Term Incentive Plan statement (STIP) which included itemised and measurable KPIs (both financial and non-financial) with disclosure of dollar values for financial performance measures at threshold, target and stretch outcomes of budgeted Net Profit After Tax (NPAT).
 - o As part of formulation of the STIPs, the Board focused on ensuring alignment of each KMP Executive's STI KPIs to the Company's strategic objectives to focus on directly creating shareholder value.
 - o Based on advice from GRG, the vesting criteria for the FY 2018 LTI TSR tranche issued under the LTI Plan was changed, moving the Indexed Total Shareholder Return (iTSR) from the All Ordinary index to the Small Industrials Index, believed to be a more accurate benchmark of the Company's performance. The threshold, target and stretch percentage requirements for the vesting criteria against the index and EPS growth were also amended to reflect the revised corporate strategy.
- NED remuneration:
 - o During FY 2018 no changes have been made to the base remuneration received by non-executive directors and the Board will not be seeking an increase to the aggregate fee limit (AFL) for NED remuneration (AFL \$800,000 approved by shareholders at the Annual General Meeting 2015).
 - o As part of an annual review, the Board reviewed the current remuneration levels for NEDs and it was decided that there would be no change/adjustments to existing director and standing committee chair remuneration levels for FY 2019.
 - o In view of additional work being undertaken by non-executive directors in FY 2018 by way of a special purpose subcommittee of the Board, the Board has agreed a policy for payment of an additional one-off fee of \$7,500 for the Chair of any special purpose committee. The Non-Executive Director remuneration policy has been amended to reflect this policy change. The payment of this fee will not cause total remuneration paid to NEDs to exceed the AFL.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

- Remuneration policies and procedures:
 - Since the last report, the Company has reviewed the complete Remuneration Governance Framework and the associated policies on an annual basis. The associated policies are the Short-Term Incentive Policy and Procedure, the Long-Term Incentive Policy and Procedure, Engaging External Remuneration Consultants Policy and Procedure, Non-Executive Director Remuneration Policy and Procedure and the Senior Executive Remuneration Policy and Procedure. No material changes were made.
 - The Company seeks to improve shareholder engagement and will continue to annually review its formal policies and procedures as they relate to KMP remuneration and publish the revised versions on the Company website. Feedback from shareholders regarding this material is welcome.
 - It is recommended that the material on the website be considered as part of forming an opinion regarding the appropriateness of the remuneration practices of the Company.
- STI Financial Measures and Normalisation of financial metric calculations for incentive plans:
 - For STI measures for FY 2018, Net Profit After Tax (NPAT) was employed as the key financial measure rather than EBITDA which was used in previous years. This decision was made as it was viewed to be of greater interest to shareholders than the previous EBITDA measure.
 - As detailed in section 7.3, for the purpose of STI award evaluation, NPAT for FY 2018 was normalised, reducing NPAT by \$1.874 million. In order to manage key stakeholder expectations, the Company will continue to disclose amendments of this nature.
- Review of incentive plans:
 - The Board completed a review of the LTI and STI policies during the course of the year and the allocations for KMP Executives were considered during FY 2018.
 - The Board aims to ensure incentive arrangements for KMP executives are designed appropriately to motivate enhanced and sustainable performance, build on the risk culture, execute on strategy and ultimately increase shareholder value.
 - In order to do so, in FY 2019 the Board will continue to review remuneration matters such as relativity of STI and LTI to total remuneration, and the appropriateness of LTI vesting conditions in view of the Company's current circumstances.
 - In light of the emerging issues that are driving change in the banking and finance industry the Board is committed to ongoing review of the STI and LTI components of KMP packages.
 - STI payment deferral was considered by the Board and will be further investigated in FY 2019 to determine the impact of deferral and other options to encourage required behaviours and outcomes.
 - A Minimum Shareholding Policy was approved in August 2018.

4. Overview of Cash Converters' Remuneration Governance Framework and Strategy

4.1 Transparency and engagement

The Board seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders;
- Remuneration and Nomination Committee Members;
- Stakeholder groups including proxy advisors;
- External remuneration consultants;
- Other experts and professionals such as tax advisors and lawyers; and
- Company management.

The following outlines a summary of Cash Converters' formal Remuneration Governance Framework that has resulted from those engagements and related considerations.

The complete framework can be accessed on the Company's remuneration governance portal at www.cashconverters.com/Governance/RemunerationCommittee, and a channel for direct feedback (remuneration@cashconverters.com) is provided. Shareholders, proxy advisors and other interested parties are invited to consider this information as part of forming a judgement regarding the remuneration policies, procedures and practices of the Company.

4.2 Remuneration and Nomination Committee Charter

The Remuneration and Nomination Committee Charter (the Charter) is due for review on an annual basis. The Charter was reviewed and approved by the Board in June 2018 and is accessible on the Company's portal at www.cashconverters.com/Governance/RemunerationCommittee.

The Charter governs the operation of the Remuneration and Nomination Committee (the Committee). It sets out the Committee's role and responsibilities, composition, structure and membership requirements. The purpose of the Committee, as it relates to remuneration, is to assist the Board by:

- providing advice in relation to the remuneration packages of Senior Executives and NEDs, equity-based incentive plans and other employee benefit programs;
- developing and maintaining the policies and other documents that guide and govern KMP remuneration decisions, practices and outcomes;
- determining and reviewing the nature of the Company's disclosure or communication of remuneration practices and policies;
- regularly reviewing the Company's recruitment, retention and termination policies, superannuation arrangements, succession plans, and the performance of the Board and Senior Executives; and
- reviewing the Company's diversity policy and monitoring diversity within the Company, including monitoring and appraising the size and composition of the Board.

The Committee has the authority to retain outside legal or other professional advice or assistance on any matters within its terms of reference.

The Board recognises the importance of ensuring that any recommendations provided by remuneration consultants are provided independently of those to whom the recommendations relate. Further information about the parameters under which external remuneration consultants are engaged is provided in Section 4.11.

4.3 Senior Executive Remuneration Policy and Procedure

The Senior Executive Remuneration Policy and Procedure applies to Senior Executives who are defined as follows:

- Executive Directors;
- Chief Executive Officer (CEO);
- Those roles classified as executive KMP; and
- Executive Leadership Team (ELT) members who are in roles that are business unit, functional, or expertise heads (who may or may not be KMP).

The policy outlines the Company's intentions regarding Senior Executive remuneration, as well as how remuneration is intended to be structured, benchmarked and adjusted in response to changes in the circumstances of the Company, and in line with good governance.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

Broadly the policy describes the following in relation to Senior Executives:

- Remuneration should be composed of:
 - o Fixed Annual Reward (FAR) which is inclusive of salary, superannuation, allowances, benefits and any applicable fringe benefits tax;
 - o STI which provides a reward for performance against annual objectives;
 - o LTI which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three-year period;
 - o In total the sum of the elements will constitute a total remuneration package (TRP).
- Both internal relativities and external market factors should be considered.
- TRPs should be structured with reference to market practices and the circumstances of the Company at the time.
- FAR policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice.
- TRPs at Target (being the FAR plus incentive awards intended to be paid for targeted levels of performance) should be set with reference to P75 (the upper quartile, the point at which 75% of the sample lies below) of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long-term.
- Remuneration will be managed within a range so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil a role (a range of +/- 20% is specified in line with common market practices).
- Termination benefits will generally be limited to the default amount allowed for under the Corporations Act (without shareholder approval).

The policy also outlines the procedure that should be undertaken to review Senior Executive remuneration and determine appropriate changes. Changes to remuneration resulting from annual reviews are generally to be determined in relation to:

- external benchmarking;
- whether current remuneration for the incumbent is above or below the policy midpoint/benchmark – those below the midpoint will tend to receive higher increases;
- the competence of the incumbent in fulfilling their role which determines their positioning within the policy range – higher calibre incumbents are intended to be positioned higher in the range; and
- any changes to internal relativities related to role/organisation design that have occurred since the previous review.

4.4 Non-Executive Director Remuneration Policy and Procedure

The Non-Executive Director Remuneration Policy and Procedure applies to non-executive directors of the Company in their capacity as directors and as members of committees, and may be summarised as follows:

- Remuneration may be composed of:
 - o Board fees;
 - o Committee fees;
 - o Superannuation;
 - o Other benefits; and
 - o Equity (if appropriate at the time, currently not applicable).

- Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company;
- Guidelines regarding when the Board should seek adjustment to the AFL such as in the case of the appointment of additional NEDs;
- Remuneration should be reviewed annually;
- Termination benefits will not be paid to NEDs;
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the P50 (median or middle) of the market of comparable ASX-listed companies;
- Committee fees may be used to recognise additional contributions made by members of committees to the work of the Board. The inclusion of these fees should result in outcomes that, when combined with Board Fees, should cluster around the P50 of the market of comparable ASX-listed companies;
- In relation to the Board Chair, a higher positioning in the market, such as P75, is appropriate for the Company.

The policy also outlines the procedure that should be undertaken to review non-executive director remuneration and determine appropriate changes.

4.5 Short-Term Incentive Policy and Procedure

The Short-Term Incentive Policy of the Company, since the commencement of the policy in FY 2016, is that an annual component of executive remuneration should be at-risk and allow the Company to modulate the cost of employment to align with individual and Company performance while motivating value creation for shareholders. Key aspects of the policy are as follows:

- Participants will include Senior Executives and other participants who may be invited from time to time.
- Non-executive directors are excluded from participation in the STI Plan.
- STI should be paid in cash unless deferral applies. The Board has the discretion to determine, as part of any offer, that upon calculation of the awards some portion of achieved STI is to be deferred.
- A termination of employment will trigger a forfeiture of some or all of unearned STI entitlements depending upon the circumstances of the termination. Amounts that are not forfeited will be tested and potentially paid based on actual performance during employment relative to target performance to the end of the measurement period (i.e. pro rata).
- The Board retains discretion to trigger or accelerate payment or vesting of incentives provided the limitation on termination benefits as outlined in the Corporations Act is not breached.

4.6 Long-Term Incentive Policy and Procedure

The Long-Term Incentive Policy of the Company, since the commencement of the policy in FY 2016, is that an annual component of remuneration of executives should be at-risk and based on equity in the Company to ensure that executives hold a stake in the Company to align their interests with those of shareholders and share risk with shareholders. Key aspects of the policy are as follows:

- The LTI should be based on Performance Rights that vest based on an assessment of performance against objectives.
- The measurement period should be three years, noting that with annual grants of overlapping measurement periods, the need for longer periods is mitigated (continuous improvement framework).
- Non-executive directors are not eligible to participate in the LTI Plan.
- Participants should be provided with an offer letter/invitation, an explanatory booklet and a copy of the LTIP Rules.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

- There should be two measures of long-term performance, one that best reflects internal measures of performance and one that best reflects external measures of performance (see Section 4.13 for indicators selected).
- A termination of employment will trigger a forfeiture of some or all the unvested rights held by an executive depending upon the circumstances of the termination. Those that are not forfeited will be held for possible vesting, based on performance relative to the vesting conditions following the end of the measurement period.
- The Board retains discretion to trigger or accelerate payment or vesting of incentives provided the limitation on termination benefits as outlined in the Corporations Act is not breached.

4.7 Defining threshold, target and stretch for incentive purposes

In relation to the design, implementation and operation of incentives, the Board is of the view that there should, where possible, be a range of performance and reward outcomes identified and defined. These should be set with regard to the elasticity of the measure, the impact of the measure on shareholder value creation and the ability of Senior Executives to influence the measure. In order to create clarity and consistency, the following concepts and principles are generally applied to the design of incentive scales:

- “Threshold”, being a minimum acceptable outcome for a “near miss” of the target, associated with a fraction of the target reward appropriate to the threshold outcome (generally around 80% probability of achievement);
- “Target”, being a challenging but achievable outcome, and which is the expected outcome for a Senior Executive/team that is of high calibre and high performing (generally 50% – 60% probability of achievement); and
- “Stretch” (the maximum) levels of objectives, which is intended to be a “blue sky” or exceptional outperformance, not expected to be achieved, the purpose of which is to create a continuous incentive to outperform when outperformance of the Target has already been achieved (generally 10% – 20% probability of achievement). This is particularly important for shareholders to understand when comparing with other companies whose maximum levels of incentives may be associated with a planned or target outcome.

Awards for outcomes between these levels should generally be scaled on a pro rata basis dependent on actual performances. This is intended to provide a motivating opportunity to attain a reward, and to ensure that reward outcomes align with performance, under a range of circumstances.

It is recognised that there is a link between the budget setting culture of the Company and the setting of incentive hurdles. In this regard, the Board is confident that budgets developed, and approved are sufficiently challenging but also achievable, given the circumstances of the Company at the time of each budget.

4.8 Clawback policy

During the course of FY 2019 the Board will consider the relevance of a clawback policy. Traditionally the Board held the view that a clawback policy was not appropriate since the intention of such policies is to return funds to shareholders in the case of an employee causing material misstatements in the financial reports of the Company. In the light of changing industry practice, further investigation is required regarding the implementation of a clawback policy.

4.9 Securities Trading Policy

The Company's Securities Trading Policy sets out the guidelines for dealing in any type of Company securities by the Company's KMP. It also summarises the law relating to insider trading which applies to everyone, including to all Company employees as well as to KMP. Under the current policy, KMP may only trade during a “trading window” (with some limited exceptions as set out in the policy). The following periods in a year are “trading windows”, unless otherwise determined by the Board:

- 6 weeks commencing 24 hours immediately after the day of release of the half-yearly results announcement to the ASX Limited (ASX);
- 6 weeks commencing 24 hours immediately after the day of release of the yearly results announcement to the ASX *;

- 6 weeks commencing 24 hours immediately after the day of release of a disclosure document offering equity securities in the Company; or
 - another date as declared by the Board in the circumstances that the Board is of the view that the market can reasonably be expected to be fully informed on that date.
- * the release of the yearly results announcement is determined by the Board as being the release of the audited Financial Report.

4.10 Equity Holding Policy

The Board has previously seen an equity holding policy as unnecessary since previous KMP executives received a significant component of remuneration in the form of equity and executive directors generally have had material equity holdings. Given the change in KMP over the recent years, during FY 2018 the Board initiated a preliminary review into an equity holding policy for KMP and Directors and a Minimum Shareholding Policy was approved by the Board in August 2018.

The policy is applicable to Non-Executive Directors and KMP Executives and broadly requires accumulation of a minimum holding of shares equivalent to one year's base salary (inclusive of superannuation and other benefits) with target time to accumulate, being 5 years, and allowances for Board discretion to be applied in circumstances such as exclusion of directors who are representatives of a major shareholder, retention of a proportion of vested LTI grants for accumulation purposes and exceptions for KMP where circumstances make it difficult to meet minimum requirements.

4.11 Executive remuneration consultant engagement policy and procedure

The Company has an executive remuneration consultant (ERC) engagement policy and procedure which is intended to manage the interactions between the Company and ERCs, so as to ensure their independence and that the Remuneration and Nomination Committee will have clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence whether or not the advice received has been independent, and why that view is held. The policy states that ERCs are to be approved and engaged by the Board before any advice is received, and that such advice may only be provided to a non-executive director. Interactions between management and the ERC must be approved and will be overseen by the Remuneration and Nomination Committee.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

4.12 Variable executive remuneration – Short-term Incentive plan (STIP)

Aspect	Plan, Offers and Comments
<i>Purpose</i>	The STI Plan's purpose is to give effect to an element of remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to increase the commitment of Senior Executives to deliver and outperform annual business plans, to align their interests with shareholders, reinforce a performance culture and create a strong link between performance and reward, encourage a pursuit of sustainable improvements in Group performance, encourage teamwork and co-operation among executive team members and maintain a stable executive team by helping retain key talent. These objectives aim to be achieved by a simple plan that rewards participants for performance relative to key performance indicators (KPIs) derived from annual business plans.
<i>Measurement Period</i>	The Company's financial year (12 months).
<i>Award Opportunities</i>	<p>FY 2018 Invitations</p> <p>The Executive Deputy Chairman was offered a target-based STIP equivalent to 48% of FAR for Target performance, with a maximum/stretch opportunity of up to 77% of FAR.</p> <p>The Chief Executive Officer was offered a target-based STIP equivalent to 48% of FAR for Target performance, with a maximum/stretch opportunity of up to 76% of FAR.</p> <p>Other Senior Executives who are KMP were offered a target-based STIP in a range equivalent to 18–47% of their FAR for Target performance with a maximum/stretch opportunity between 36–75% of FAR.</p>
<i>Key Performance Indicators (KPIs), Weighting and Performance Goals</i>	<p>FY 2018 Invitations</p> <p>FY 2018 Invitations to participate in the STIP were based on a number of KPIs set for each executive, summarised as follows and showing the weighting for target performance. Standards of performance are presented later in this report.</p> <p>Executive Deputy Chairman</p> <ul style="list-style-type: none"> Group Net Profit after Tax budget achieved 50% International Franchise objectives achieved 50% <p>Chief Executive Officer</p> <ul style="list-style-type: none"> Group Net Profit after Tax budget achieved 60% Strategic and operational effectiveness 35% Individual effectiveness 5% <p>Other Executives</p> <p>The FY 2018 KPI metrics for other KMP executives were grouped into five categories being Financial, Customer, Operational Excellence, People and Individual Effectiveness. Within these groups there were common shared group KPIs such as risk measures, NPAT, Net Promoter Score as well as individual KPIs specifically relating to the individual's key deliverables under the strategic roadmap. Refer to Section 7.2 for additional information on award outcomes.</p> <p>Comments</p> <p>The Board selected these measures as being those that are expected to drive economic profitability, and ultimately shareholder value creation over the long-term, within a financial year period. More detail is provided in this regard in the latter section of this report dealing with incentive outcomes for the reporting period. Refer Section 7.2.</p>

Aspect	Plan, Offers and Comments
<i>Plan Gate & Board Discretion</i>	<p>For each Measurement Period the Board will have the discretion to either abandon the plan or adjust award payouts if the Company's overall performance during the Measurement Period was substantially lower than expectations and resulted in significant loss of value for shareholders. A specified gate condition may apply to offers of STI such that no award will be payable in relation to any KPI if the gate condition is not met or exceeded.</p> <p>FY 2018 Invitations</p> <p>A gate of 90% of budget NPAT applied so that no STI would be payable if this condition was not met or exceeded.</p> <p>FY 2019 Adjustments</p> <p>In addition to the NPAT gate applied in FY 2018, a risk gate will be applied to all KMP STIs in FY 2019. The Risk Balanced Scorecard details a number of risk KPIs and associated targets that have been designed to monitor and manage risk within Cash Converters, thereby influencing the risk culture. As a minimum, the business must achieve a consolidated overall "meets expectations" performance outcome for the scorecard prior to any STI being payable.</p>
<i>Award Determination and Payment</i>	<p>Calculations are performed following the end of the Measurement Period and the auditing of Company accounts. Awards will generally be paid in cash in the September following the end of the Measurement Period. They are to be paid through payroll with PAYG tax and superannuation deducted as appropriate.</p>
<i>Cessation of Employment During a Measurement Period</i>	<p>In the event of cessation of employment due to dismissal for cause, all entitlements in relation to the Measurement Period are forfeited.</p> <p>In the event of cessation of employment due to resignation, all entitlements in relation to the Measurement Period are forfeited, unless the termination is classified as "Other" (good leaver) in the discretion of the Board (see below).</p> <p>In the case of cessation of employment in other circumstances (good leaver) the award opportunity will be reduced proportionately to reflect the portion of the Measurement Period worked. The actual award earned will not be calculated until after end of the financial year, along with other participants. The Board retains discretion to trigger or accelerate payment or vesting of incentives in the case of a termination, provided that the limitations on termination benefits as outlined in the Corporations Act are not breached.</p>
<i>Change of Control</i>	<p>In the event of a Change of Control, including a takeover, the Board may, in its discretion, decide to:</p> <ul style="list-style-type: none"> • terminate the STIP for the Measurement Period and pay pro rata awards based on the completed proportion of the Measurement Period and taking into account performance up to the date of the Change of Control, or • continue the STIP but make interim non-refundable pro rata Awards based on the completed proportion of the Measurement Period and taking into account performance up to the date of the Change of Control, or • allow the STIP to continue.
<i>Fraud, Gross Misconduct etc.</i>	<p>If the Board forms the view that a Participant has committed fraud, defalcation or gross misconduct in relation to the Company, then all entitlements in relation to the Measurement Period will be forfeited.</p>
<i>Clawback</i>	<p>The Board held the view for the FY 2018 year that a clawback policy was not appropriate. Refer to Section 4.8 for discussion regarding this policy.</p>

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

4.13 Variable executive remuneration – Long-Term Incentive Plan (LTIP) – Performance Rights Plan

Aspect	Plan Rules, Offers and Comments
Purpose	<p>The LTI Plan's purpose is to give effect to an element of Senior Executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to ensure that Senior Executives have commonly shared goals related to producing relatively high returns for Shareholders. Other purposes of the LTI Plan are to assist Senior Executives to become Shareholders, provide a component of remuneration to enable the Company to compete effectively for the calibre of talent required for it to be successful and to help retain employees, thereby minimising turnover and stabilising the workforce such that in periods of poor performance the cost is lesser (applies to non-market measures under AASB 2).</p> <p>Currently the Company operates a Rights plan for the purposes of the LTIP.</p>
Form of Equity	<p>The current Rights plan includes the ability to grant:</p> <ol style="list-style-type: none"> Performance Rights, which are subject to performance related vesting conditions, for the purposes of the LTIP. Retention Rights, which are subject to service related vesting conditions, (not currently used). Deferred Rights which are not subject to vesting conditions, but which are subject to disposal restrictions that attach to the Shares that result from Rights being exercised (not currently used). <p>The LTIP is based on grants of Performance Rights. The Rights are Indeterminate Rights and confer the right (following valid exercise) to the value of an ordinary Share in the Company at the time, either:</p> <ul style="list-style-type: none"> Settled in Shares that may be issued or acquired on-market, or Settled in the form of cash, <p>at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of terminations). No dividends accrue to unvested Rights, and no voting rights are attached.</p>
LTI Value	<p>The Board retains discretion to determine the value of LTI to be offered each year, subject to shareholder approval in relation to Directors, when the Rights are to be settled in the form of a new issue of Company shares. The Board may also seek shareholder approval for grants to Directors in other circumstances, at its discretion.</p> <p>FY 2018 Invitations</p> <p>Over the duration of FY 2018 no additional grants have been made to the Executive Deputy Chairman position.</p> <p>The CEO was granted Performance Rights with a Target value equivalent to 35% of Base Salary and a maximum/stretch value of 70% of Base Salary.</p> <p>For other Senior Executives Performance Rights with a Target value between 10–20% of Base Salary and a maximum/stretch value of between 20–40% of Base Salary were granted.</p> <p>Comments</p> <p>The number of LTI Rights to be granted is calculated with reference to the maximum/stretch LTI, divided by the Right value (valued as ignoring vesting conditions). This produces a mathematically identical outcome to the following formula:</p> <p>Number = Base package x Target LTI% x Tranche Weighting ÷ Right Value ÷ Target Vesting%</p> <p>The equity-based Right Value is the Share price at the time of the calculation (a VWAP calculation is used), less the expected value of dividends that will not accrue to Right holders (Rights are not eligible to receive dividends). This is equivalent to a Black-Scholes value ignoring any vesting conditions.</p>

Aspect	Plan Rules, Offers and Comments																																										
Measurement Period	<p>The Measurement Period will include three financial years unless otherwise determined by the Board (which would only apply in exceptional circumstances).</p> <p>FY 2018 Invitations</p> <p>The Measurement Period is from 1 July 2017 to 30 June 2020.</p> <p>FY 2019 Invitations</p> <p>The Measurement Period will be from 1 July 2018 to 30 June 2021.</p> <p>Comments</p> <p>Three-year Measurement Periods combined with annual grants will produce overlapping cycles that will promote a focus on producing long-term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism (continuous improvement). Because of the timing of grants, the life of the Right may be less than 3 years at times, however this does not impact the Measurement Period over which performance is measured.</p>																																										
Vesting Conditions	<p>The Board has discretion to set vesting conditions for each offer. Performance Rights that do not vest will lapse.</p> <p>FY 2018 Invitations</p> <p>Except as indicated below, a participant must remain employed by the Company during the Measurement Period and the performance conditions must be satisfied for Rights to vest.</p> <p>The FY 2018 Invitations included:</p> <ul style="list-style-type: none">• a tranche (50% weighting) with a indexed total shareholder return (ITSR) vesting condition, and• a tranche (50% weighting) with normalised earnings per share growth (NEPSG) vesting condition, as follows: <p>Tranche 1</p> <table><tr><th>Performance Level</th><th>CCIL's TSR vs S&P ASX Small Industrials Index over the Measurement Period</th><th>% of Tranche Vesting</th></tr><tr><td>Stretch</td><td>≥ Index TSR +8.5%</td><td>100%</td></tr><tr><td>>Target</td><td>> Index TSR +4.25% < Index TSR +8.5%</td><td>Pro-rata</td></tr><tr><td>Target</td><td>Index TSR + 4.25%</td><td>50%</td></tr><tr><td>>Threshold</td><td>>Index TSR & < Index TSR +4.25%</td><td>Pro-rata</td></tr><tr><td>Threshold</td><td>=Index TSR</td><td>25%</td></tr><tr><td><Threshold</td><td><Index TSR</td><td>Nil</td></tr></table> <p>Tranche 2</p> <table><tr><th>Performance Level</th><th>CCIL's Normalised Earnings Per Share Compound Annual Growth Rate</th><th>% of Tranche Vesting</th></tr><tr><td>Stretch</td><td>≥20%</td><td>100%</td></tr><tr><td>>Target</td><td>>13.5% & <20%</td><td>Pro-rata</td></tr><tr><td>Target</td><td>13.5%</td><td>50%</td></tr><tr><td>>Threshold</td><td>>10% & <13.5%</td><td>Pro-rata</td></tr><tr><td>Threshold</td><td>10%</td><td>25%</td></tr><tr><td><Threshold</td><td><10%</td><td>Nil</td></tr></table>	Performance Level	CCIL's TSR vs S&P ASX Small Industrials Index over the Measurement Period	% of Tranche Vesting	Stretch	≥ Index TSR +8.5%	100%	>Target	> Index TSR +4.25% < Index TSR +8.5%	Pro-rata	Target	Index TSR + 4.25%	50%	>Threshold	>Index TSR & < Index TSR +4.25%	Pro-rata	Threshold	=Index TSR	25%	<Threshold	<Index TSR	Nil	Performance Level	CCIL's Normalised Earnings Per Share Compound Annual Growth Rate	% of Tranche Vesting	Stretch	≥20%	100%	>Target	>13.5% & <20%	Pro-rata	Target	13.5%	50%	>Threshold	>10% & <13.5%	Pro-rata	Threshold	10%	25%	<Threshold	<10%	Nil
Performance Level	CCIL's TSR vs S&P ASX Small Industrials Index over the Measurement Period	% of Tranche Vesting																																									
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Performance Level	CCIL's Normalised Earnings Per Share Compound Annual Growth Rate	% of Tranche Vesting																																									
Stretch	≥20%	100%																																									
>Target	>13.5% & <20%	Pro-rata																																									
Target	13.5%	50%																																									
>Threshold	>10% & <13.5%	Pro-rata																																									
Threshold	10%	25%																																									
<Threshold	<10%	Nil																																									

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

Aspect	Plan Rules, Offers and Comments
	<p>Normalised EPS will relate to normal operations and will exclude abnormal items as determined by the Board in its discretion. See Section 7.3 for further details regarding normalisation.</p> <p>Comments</p> <p>The Board recognises that it is important that shareholders understand why the LTI vesting conditions selected are appropriate to the circumstances of the Company, and therefore seeks to be transparent in this regard.</p> <p>While the measure that has strongest alignment with shareholders is Total Shareholder Return (TSR), it is recognised that absolute TSR is influenced by overall economic movements. Therefore, grants of LTI will be offered to executives that vest based on indexed TSR (iTSR) which removes market movements irrelevant to the performance of the Company from assessments of the Company's TSR performance and avoids windfall gains from changes in broad market movements in share prices.</p> <p>The internal measure of performance that is understood to be well accepted by stakeholders and which the Board encourages management to focus on, is earnings per share (EPS), which will be assessed on a growth rate basis against a vesting scale.</p> <p>The Comparator Group for the assessment of the iTSR vesting conditions is the S&P/ASX Small Industrials Index (abbreviated to AXSI). This group was selected because it is the best indicator of broad economic sentiment and market movements, which are to be effectively removed from the assessment of the Company's TSR via the iTSR measure.</p>
<i>Retesting</i>	None of the grants made in respect of the reporting period included a retesting feature.
<i>Plan Gate & Board Discretion</i>	<p>FY 2018 Invitations</p> <p>A gate of Company TSR being positive for the measurement period applied to both vesting conditions, before performance against the vesting conditions is assessed to ensure that the LTI will not reward executives when shareholders have lost value.</p> <p>The Board retains discretion to adjust vesting outcomes in the circumstances that the outcomes from applying the vesting scales alone would be likely to be seen as inappropriate.</p>
<i>Amount Payable for Performance Rights</i>	No amount is payable by participants for Performance Rights. The target value of Rights is included in assessments of remuneration benchmarking and policy positioning. This is standard market practice and consistent with the nature of Performance Rights.
<i>Exercise of Vested Performance Rights</i>	Under the plan rules, vested Performance Rights are exercised automatically following vesting. Rights that are not exercised, lapse. Exercised Rights will be satisfied in the form of ordinary Company shares, except where the Board exercises its discretion to settle in the form of cash.
<i>Disposal Restrictions etc.</i>	<p>Rights may not be disposed of or otherwise dealt with while they remain Rights i.e. prior to exercise.</p> <p>All shares acquired by Participants as a consequence of exercising vested Rights, shall be subject to a dealing restriction (Restricted Shares) being that such Restricted Shares may not be disposed of or otherwise dealt with until:</p> <ol style="list-style-type: none"> The time specified by the Company's securities trading policy with regards to when executives and directors may deal in securities of the Company, and The time at which dealing in securities of the Company is permitted under the Corporations Act having regard to division 3 of Part 7.10 (insider trading restrictions).

Aspect	Plan Rules, Offers and Comments			
Cessation of Employment	In the event of cessation of employment in the circumstances of a bad leaver, all unvested Performance Rights will be forfeited. In the case of special circumstances (good leaver) the grant of Performance Rights made in the year of the termination will be pro rata forfeited for the period with remaining rights to be tested at the end of the measurement period along with other participants. Other grants made in previous years will be unaffected by the termination. The Board retains discretion to trigger or accelerate payment or vesting of Performance and/or Retention Rights in the case of a termination of the employment of a Participant.			
Change of Control of the Company	<p>If in the opinion of the Board a change of control event has occurred, or is likely to occur, the Vesting Conditions attached to the Tranche at the time of the Offer will cease to apply and:</p> <p>a) unvested Performance Rights granted in the financial year of the Change of Control will lapse in the proportion that the remainder of the financial year bears to the full financial year,</p> <p>b) all remaining unvested Performance Rights will vest in accordance with the application of the following formula (noting that negative results will be taken to be nil):</p> <table><tr><td>Number of Performance Rights to Vest</td><td>=</td><td>Unvested Performance Rights x (Share Price at the Change of Control - Offer Share Price) ÷ Offer Share Price</td></tr></table> <p>a) any unvested Performance Rights that do not vest in relation to (b) will lapse unless otherwise determined by the Board,</p> <p>b) all unvested Retention Rights will vest, and</p> <p>c) disposal restrictions applied to Deferred Rights by the Company and specified as part of the terms of the LTI will be lifted (including the removal of any Company initiated CHES holding lock if applicable), unless otherwise determined by the Board and participants notified in writing.</p>	Number of Performance Rights to Vest	=	Unvested Performance Rights x (Share Price at the Change of Control - Offer Share Price) ÷ Offer Share Price
Number of Performance Rights to Vest	=	Unvested Performance Rights x (Share Price at the Change of Control - Offer Share Price) ÷ Offer Share Price		
Clawback	For FY 2018 the Board held the view that a clawback policy was not appropriate. The Board intends to review this position over the course of FY 2019. Refer to Section 4.8 for discussion regarding this policy.			

5. Planned executive remuneration for FY 2018 (non-statutory disclosure)

The disclosures required under the Corporations Act (including regulations) and prepared in accordance with applicable accounting standards do not necessarily provide shareholders with an understanding of the intended remuneration in a given year. For example, the LTI disclosed is not reflective of the remuneration opportunity for the year being reported on, due to the requirements of AASB 2. Therefore, the following table is provided to ensure that shareholders have an accurate understanding of the Board's intention regarding the remuneration offered to executives during FY 2018, as at target performance, to facilitate an assessment of the alignment between performance and reward. In this regard, the definition of Target needs to be considered, as provided in this report. Generally, there are opportunities for incentives to exceed the target levels outlined here, as discussed in the relevant sections, however stretch/maximum incentives are designed to be unlikely to occur.

The incentive levels presented are based on the policy at the time of determining remuneration for the year, and in the case of LTI, translated into a number of rights at the time of the grant calculation.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

5.1 Planned KMP remuneration at target

	FAR		Target STI opportunity			Target LTI opportunity			Total Target Remuneration Package (TRP)
	Amount	% of TRP	% of FAR	STI amount	% of TRP	% of FAR	LTI amount	% of TRP	
	\$	%	%	\$	%	%	\$	%	\$
Mr P Cumins	864,618	67%	48%	416,777	33%	0%	–	0%	1,281,395
Mr M Reid	641,065	55%	48%	305,000	26%	33%	213,500	18%	1,159,565
Mr S Budiselik [^]	320,048	60%	47%	150,000	28%	19%	60,000	11%	530,048
Mr N Carbone	331,065	73%	18%	60,000	13%	18%	60,000	13%	451,065
Ms M Cutten	251,065	74%	26%	66,000	19%	9%	22,000	6%	339,065
Mr B Edwards	340,848	62%	44%	150,000	27%	18%	60,000	11%	550,048
Mr M Jenkins	331,065	61%	45%	150,000	28%	18%	60,000	11%	541,065
Ms A Manners [~]	281,065	69%	27%	75,000	18%	18%	50,000	12%	406,065
Mr S Prior	293,365	67%	33%	97,920	22%	17%	48,960	11%	440,245

[^] Mr Budiselik's stated FAR reflects his contract as at 3 July 2017. The FAR was amended upon change of role to Chief Operating Officer effective 1 January 2018 with an increase from \$320,048 to \$351,128.

[~] Ms Manners' stated FAR reflects her contract as at 1 July 2017 and is no longer KMP as a result of reporting line changes effective 1 January 2018.

Mr Cox did not become KMP until 27 May 2018 and accordingly did not have a target STI or LTI opportunity set for FY 2018.

5.2 Planned KMP remuneration at maximum

	FAR		Maximum STI opportunity			Maximum LTI opportunity			Total Maximum Remuneration Package (TRP)
	Amount	% of TRP	% of FAR	STI amount	% of TRP	% of FAR	LTI amount	% of TRP	
	\$	%	%	\$	%	%	\$	%	\$
Mr P Cumins	864,618	56%	77%	666,842	44%	0%	–	0%	1,531,460
Mr M Reid	641,065	41%	76%	488,000	31%	67%	427,000	27%	1,556,065
Mr S Budiselik [^]	320,048	47%	75%	240,000	35%	37%	120,000	18%	680,048
Mr N Carbone	331,065	58%	36%	120,000	21%	36%	120,000	21%	571,065
Ms M Cutten	251,065	59%	53%	132,000	31%	18%	44,000	10%	427,065
Mr B Edwards	340,848	49%	70%	240,000	34%	35%	120,000	17%	700,848
Mr M Jenkins	331,065	48%	72%	240,000	35%	36%	120,000	17%	691,065
Ms A Manners [~]	281,065	53%	53%	150,000	28%	36%	100,000	19%	531,065
Mr S Prior	293,365	50%	67%	195,840	33%	33%	97,920	17%	587,125

[^] Mr Budiselik's stated FAR reflects his contract as at 3 July 2017. The FAR was amended upon change of role to Chief Operating Officer effective 01 January 2018 with an increase from \$320,048 to \$351,128.

[~] Ms Manners' stated FAR reflects her contract as at 1 July 2017 and is no longer KMP as a result of reporting line changes effective 1 January 2018.

Mr Cox did not become KMP until 27 May 2018 and accordingly did not have a target STI or LTI opportunity set for FY 2018.

6. Vested / awarded incentives and remuneration outcomes for KMP in respect of the completed FY 2018 period (non-statutory disclosure)

The statutory disclosure requirements and accounting standards make it difficult for shareholders to obtain a clear understanding of what the actual remuneration outcomes for executives were in relation to a given reporting period. It should be noted that typically STI for a reporting period is paid after the end of the financial year/reporting period, following audit, and that LTI vesting is similarly delayed. The following table brings these outcomes back to the year of performance to which the outcome relates, and which is the reporting period i.e. STI is presented as being part of the remuneration for the year in which performance was tested, and LTI would be presented as being part of the remuneration for the year during which performance testing was completed.

Name & role	Year	FAR		Total STI awarded following completion of financial year (cash and equity) (i)		Value of LTI vested following completion of measurement period / financial year (ii)		Total remuneration package (TRP)	Gain / loss on vested LTI from change in value during vesting period (iii)
		\$	% of TRP	\$	% of TRP	\$	% of TRP	\$	\$
Mr P Cumins Executive Deputy Chairman	2018	864,618	69%	392,117	31%	–	0%	1,256,735	–
	2017	874,942	71%	364,875	29%	–	0%	1,239,818	–
Mr M Reid Chief Executive Officer	2018	641,065	67%	308,965	33%	–	0%	950,030	–
	2017	[^] 550,923	66%	[*] 285,046	34%	–	0%	835,969	–
Mr S Budiselik Chief Operating Officer	2018	[#] 320,048	66%	167,239	34%	–	0%	487,287	–
Mr N Carbone Chief Risk Officer	2018	331,065	83%	65,772	17%	–	0%	396,837	–
	2017	[~] 321,308	89%	39,000	11%	–	0%	360,308	–
Ms M Cutten Chief Human Resources Officer	2018	251,065	83%	50,930	17%	–	0%	301,995	–
Mr B Edwards General Counsel & Company Secretary	2018	340,848	67%	166,196	33%	–	0%	507,044	–
Mr M Jenkins Chief Financial Officer Chief Operating Officer – Personal Finance	2018	331,065	68%	154,145	32%	–	0%	485,210	–
	2017	278,318	79%	75,833	21%	–	0%	354,151	–
Ms A Manners Chief Digital and Marketing Officer	2018	[°] 281,065	81%	75,885	19%	–	0%	346,950	–
Mr S Prior Chief Operating Officer – Stores	2018	293,365	100%	–	0%	–	0%	293,365	–
	2017	292,933	86%	39,168	12%	8,143	2%	340,244	(5,466)

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

- (i) This is the value of the total STI award calculated following the end of the Financial Year
 - (ii) This is the value as at time of the calculation of the grant of the LTI that vested in relation to the completion of the specified financial year, noting that vesting is determined and occurs following the end of the Measurement Period i.e. number that vested multiplied by the undiscounted Right Value
 - (iii) This is the number of LTI Rights that vested following the completion of the Financial Year, multiplied by the closing Share Price on the date of vesting, less the grant value
 - # Mr Budiselik's remuneration was adjusted 1 January 2018 from FAR \$320,048 to \$351,128
 - ° Stated FAR reflects Ms Manners' contract at 1 July 2017, however Ms Manners is no longer KMP as a result of reporting line changes effective 1 January 2018
 - ^ Mr Reid's remuneration was adjusted 23 January 2017 from FAR \$495,517 to \$620,633
 - * Mr Reid's remuneration includes \$35,625 ex gratia payment during FY 2017
 - ~ Mr Carbone's remuneration for FY 2017 was based on contract role from 1 July 2016 to 31 December 2016 and permanent role from 1 January 2017 to 30 June 2017
- Mr Cox did not become KMP until 27 May 2018 and accordingly did not have a target STI or LTI opportunity set for FY 2018. The Board approved a discretionary bonus of \$50,000 in recognition of his contribution to the business since joining the Company and will be paid in FY 2019.

Details regarding the assessments of performance that gave rise to the incentive outcomes for FY 2018 are given below.

7. Performance outcomes for FY 2018 including STI and LTI assessment

7.1 Company performance

Financial performance during the year met expectations despite the significant changes to the business delivering a net profit after tax of \$22.503 million for FY 2018 up from a net profit after tax of \$20.618 million in FY 2017. This represents a return to growth in profitability after the Company digested regulatory changes to the industry and adjusted its business model appropriately and compliantly.

During the reporting period the Company has delivered on a number of key objectives as outlined in the operating and financial review section of the annual report.

The following outlines the performance of the Company over the year ended 30 June 2018 and the previous four financial years in accordance with the requirements of the Corporations Act:

	Year ended 30 June				
	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Revenue from continuing operations	260,345	271,241	311,599	288,666	331,669
Net profit before tax from continuing operations	31,271	28,198	31,171	3,855	32,040
Net profit / (loss) after tax					
– continuing operations	22,503	20,618	25,894	(1,255)	21,132
– discontinued operations	–	–	(31,166)	(20,430)	–
Profit/(loss) after tax	22,503	20,618	(5,272)	(21,685)	21,132
Share price	cents	cents	cents	cents	cents
– beginning of year	31.5	43.5	70.0	108.0	107.0
– end of year	31.0	31.5	43.5	70.0	108.0
Dividend (i)					
– interim	–	–	2.00	2.00	2.00
– final dividend	–	–	1.00	–	2.00
Earnings per share from continuing and discontinued operations					
– basic	4.55	4.21	(1.09)	(4.69)	5.67
– diluted	4.43	4.12	(1.09)	(4.69)	5.56

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

The table below sets out the comparison between Cash Converters internal targets set by the Company compared to actual performance for the key performance metrics that are the main drivers of incentive outcomes in FY 2018. This gives some indication of a correlation between planning and outcomes.

Year ended 30 June	Actual NPAT \$'000	Budgeted NPAT \$'000
2018	22,503	20,419
2017	20,618	20,358

7.2 Links between performance and reward including STI and LTI determination

The remuneration of executive KMP is intended to be composed of three parts as outlined earlier, being:

- FAR, which is not intended to vary with performance but which tends to increase as the scale of the business increases (i.e. following success),
- STI, which is intended to vary with indicators of annual Company and individual performance, and
- LTI, which is intended to deliver a variable reward based on long-term measures of Company performance.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

Short-Term Incentives

The Board believes there are strong links between internal measures of Company performance and the payment of short-term incentives with each KMP Executive having STI KPIs linked to strategic objectives of the Company.

The STI achieved in relation to the FY 2018 period being completed will be paid after the end of the period (i.e. during FY 2019, usually in September). On average 99.7% of the target award opportunity or 60.5% of the maximum award opportunity available will be paid to KMP Executives. This level of award was considered appropriate under the STI plan since the objectives were set and offers made in relation to the achievement of each KPI at the beginning of the financial year, and the majority of those objectives were met.

In relation to the completed FY 2018 period the payment of STI was calculated as follows:

Name & role	FY 2018 KPI summary					Award outcomes FY 2018, paid FY 2019		
	KPI summary	Weighting %	Threshold	Target	Stretch	Achievement	Awarded \$	Total STI award \$
Mr P Cumins Executive Deputy Chairman	Group Financial	50%	90% budget	100% budget	140% budget	101%	211,514	392,117
	Functional	50%	70%	100%	200%	95%	180,603	
Mr M Reid Chief Executive Officer	Financial	60%	90% budget	100% budget	140% budget	103%	191,235	308,965
	Customer	10%	70%	100%	200%	95%	26,433	
	Operational	20%	70%	100%	200%	105%	62,830	
	People	5%	70%	100%	200%	95%	13,217	
	Individual effectiveness	5%	70%	100%	200%	100%	15,250	
Mr S Budiselik Chief Operating Officer (1)	Financial	50%	90% budget	100% budget	140% budget	107%	87,019	167,239
	Customer	10%	70%	100%	200%	95%	13,913	
	Operational	20%	70%	100%	200%	105%	32,445	
	People	10%	70%	100%	200%	105%	16,222	
	Individual effectiveness	10%	70%	100%	200%	120%	17,640	
Mr N Carbone Chief Risk Officer	Financial	25%	90% budget	100% budget	140% budget	105%	16,875	65,772
	Customer	10%	70%	100%	200%	118%	7,050	
	Operational	45%	70%	100%	200%	109%	29,322	
	People	10%	70%	100%	200%	109%	6,525	
	Individual effectiveness	10%	70%	100%	200%	100%	6,000	

Name & role	FY 2018 KPI summary					Award outcomes FY 2018, paid FY 2019		
	KPI summary	Weighting %	Threshold	Target	Stretch	Achievement	Awarded \$	Total STI award \$
Ms M Cutten Chief Human Resources Officer	Financial	20%	90% budget	100% budget	140% budget	101%	13,530	50,930
	Customer	10%	70%	100%	200%	70%	2,200	
	Operational	30%	70%	100%	200%	95%	17,600	
	People	30%	70%	100%	200%	85%	13,200	
	Individual effectiveness	10%	70%	100%	200%	85%	4,400	
Mr B Edwards General Counsel & Company Secretary	Financial	20%	90% budget	100% budget	140% budget	101%	30,450	166,196
	Divisional	20%	90% budget	100% budget	140% budget	130%	43,500	
	Customer	10%	70%	100%	200%	105%	15,450	
	Operational	40%	70%	100%	200%	105%	61,796	
	Individual effectiveness	10%	70%	100%	200%	100%	15,000	
Mr M Jenkins Chief Financial Officer	Financial	50%	90% budget	100% budget	140% budget	103%	78,375	154,145
	Customer	10%	70%	100%	200%	95%	13,250	
	Operational	20%	70%	100%	200%	105%	30,900	
	People	10%	70%	100%	200%	118%	16,620	
	Individual effectiveness	10%	70%	100%	200%	100%	15,000	
Ms A Manners Chief Digital & Marketing Officer (2)	Financial	25%	90% budget	100% budget	140% budget	101%	19,219	65,885
	Customer	15%	70%	100%	200%	95%	10,000	
	Operational	40%	70%	100%	200%	95%	26,667	
	People	10%	70%	100%	200%	80%	4,166	
	Individual effectiveness	10%	70%	100%	200%	90%	5,833	

(1) Mr Budiselik's Key Performance Indicators were reviewed during FY 2018 to ensure they aligned to the change of role to Chief Operating Officer on 1 January 2018

(2) Ms Manners is no longer KMP as a result of reporting line changes effective 1 January 2018

Mr Cox did not become KMP until 27 May 2018 and accordingly did not have a target STI or LTI opportunity set for FY 2018. The Board approved a discretionary bonus of \$50,000 in recognition of his contribution to the business since joining the Company and will be paid in FY 2019. Due to Mr Prior's departure from the Company prior to 30 June 2018, he was ineligible for STIs.

The KPIs selected were based on them reflecting and linking to the most significant matters expected to contribute to the success of the Company during FY 2018 in the case of each role. As previously outlined in this report, the KPI metrics for FY 2018 for other KMP were tailored to specific objectives relevant to role and shared objectives of financial performance of the relevant business unit and Company set with reference to the annual budget for the financial year. The KPIs were consistently grouped into key metrics including Financial, Customer, Operational, People and Individual Effectiveness. Financial target metrics were based on consolidated and divisional NPAT and accounted for on average a weighting of the overall KPI result of 32%.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

Following the end of the Measurement Period (the financial year), the Company accounts were audited and reports on the Company's activities during the year were prepared for the Board. The Board then assessed the extent to which target levels of performance had been achieved in relation to each KPI and used the pro rata scales (for non-binary measures) to calculate the total award payable. This method of performance assessment was chosen because it is the most objective approach to short-term incentive governance, and reflective of market best practices.

Long-Term Incentives

In FY 2018 grants of equity were made to executive KMP in relation to the LTI Plan as part of remuneration for FY 2018. These grants have a measurement period of 3 years and hence will not have the possibility of vesting until the end of the measurement period (30 June 2020).

In relation to the completion of the FY 2018 reporting period, grants of equity made under the LTI plan whose measurement period ended at 30 June 2018 (tranches 13, 14, 15 & 16) did not vest due to the vesting conditions having not been met for the period.

As indicated in the prior report, previous eligible grants of equity made under the previous LTI plan (Tranche 12) vested and the appropriate shares were issued during FY 2018.

Details are given in Section 8 of this report in relation to changes in equity interests.

7.3 Impact of normalisation on incentives

The Board recognises that the use of normalisation to adjust indicators of profitability has been an issue of concern to some external stakeholders in recent years, particularly with regards to the calculation of incentive outcomes. It is important that there is transparency regarding this practice and the rationale for its use, and therefore the following information is provided in this regard.

The Board sees it as appropriate to apply normalisation to profit measures for the purposes of incentive calculation to ensure that the right behaviours are motivated, and inappropriate behaviours are not motivated, in respect of the profit calculation. Generally, adjustments will be balanced so that the impact of normalisation is not skewed to create advantage, for example if the cost of the acquisition of a new business is excluded, the revenue from the business unit will also be excluded. The Board has discretion to determine which adjustments will be appropriate given the circumstances, and business plans.

FY 2018 net adjustments – (\$1.874 million)

- Reversal to profit and loss for lapsed performance rights (\$1.330 million)
- Other items of a non-recurring nature

FY 2017 net adjustments – \$3.383 million

- Legal expenses (excess to budget class action legal costs)
- Risk and Compliance Project costs (excess to budget one off costs associated with EU remediation)
- Restructuring costs related to operating efficiency projects and permanent ongoing reduction in annual expenses
- Portion of 2016 incentive and other payments expensed but not utilised and released to FY 2017 result

7.4 Links between Company strategy and remuneration

The Company intends to attract the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- positioning FAR (the fixed element) around relevant market data benchmarks when they are undertaken, and
- supplementing the FAR with at-risk remuneration, being incentives that motivate executive focus on:
 - o short to mid-term objectives linked to the strategy via KPIs and annual performance assessments, and
 - o long-term value creation for shareholders by linking a material component of remuneration to those factors that shareholders have expressed should be the long-term focus of executives and the Board.

To the extent appropriate, the Company links strategic implementation and measures of success of the strategy, directly to incentives in the way that measures are selected and calibrated.

8. Changes in KMP-held equity

The following tables outline the changes in equity held by KMP over the financial year.

Fully paid ordinary shares of Cash Converters International Limited

	Balance at 1 July 2017	Granted as remuneration	Received on exercise of rights	Net other change	Balance at 30 June 2018
	Number	Number	Number	Number	Number
Directors					
Mr S Grimshaw	–	–	–	–	–
Mr P Cumins	7,575,694	–	–	–	7,575,694
Ms E Comerford	–	–	–	–	–
Mr K Dundo	–	–	–	–	–
Mr L Given	–	–	–	–	–
Ms A Waters	–	–	–	68,750	68,750
Other key management personnel					
Mr M Reid	–	–	–	–	–
Mr S Budiselik (1)	–	–	–	116,875	116,875
Mr N Carbone	–	–	–	–	–
Mr B Cox (1)	–	–	–	–	–
Ms M Cutten (1)	–	–	–	–	–
Mr B Edwards	84,511	–	–	81,692	166,203
Mr M Jenkins	3,375	–	–	–	3,375
Ms A Manners (2)	–	–	–	–	–
Mr S Prior	–	–	8,500	–	8,500
	7,663,580	–	8,500	267,317	7,939,397

(1) Opening balance at date of appointment

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

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

	Balance at 1 July 2016	Granted as remuneration	Received on exercise of rights	Net other change	Balance at 30 June 2017
	Number	Number	Number	Number	Number
Directors					
Mr S Grimshaw	–	–	–	–	–
Mr P Cumins	10,513,030	–	–	(2,937,336)	7,575,694
Ms E Comerford	–	–	–	–	–
Mr K Dundo	–	–	–	–	–
Mr L Given	–	–	–	–	–
Ms A Waters (1)	–	–	–	–	–
Mr R Webb (2)	1,012,500	–	–	–	1,012,500
Other key management personnel					
Mr M Reid	–	–	–	–	–
Mr N Carbone (1)	–	–	–	–	–
Mr M Cooke (2)	–	–	–	–	–
Mr B Edwards (1)	84,511	–	–	–	84,511
Mr G Fee	102,000	–	–	(90,000)	12,000
Mr R Groom	249,525	–	–	(249,525)	–
Mr M Jenkins	3,375	–	–	–	3,375
Ms A Manners (1)	–	–	–	–	–
Mr S Prior	–	–	–	–	–
	11,964,941	–	–	(3,276,861)	8,688,080

(1) Opening balance at date of appointment / becoming member of KMP

(2) Closing balance at date of resignation

Performance rights of Cash Converters International Limited

	Balance at 1 July 2017	Granted as remuneration	Rights exercised	Rights lapsed / forfeited (3)	Balance at 30 June 2018	Balance vested at 30 June 2018
	Number	Number	Number	Number	Number	Number
Directors						
Mr S Grimshaw	–	–	–	–	–	–
Mr P Cumins	8,302,920	–	–	(3,730,000)	4,572,920	–
Ms E Comerford	–	–	–	–	–	–
Mr K Dundo	–	–	–	–	–	–
Mr L Given	–	–	–	–	–	–
Ms A Waters	–	–	–	–	–	–
Other key management personnel						
Mr M Reid	1,879,660	1,377,420	–	(844,440)	2,412,640	–
Mr S Budiselik (1)	–	387,096	–	–	387,096	–
Mr N Carbone	–	387,096	–	–	387,096	–
Mr B Cox (1)	–	–	–	–	–	–
Ms M Cutten (1)	–	106,452	–	–	106,452	–
Mr B Edwards	–	387,096	–	–	387,096	–
Mr M Jenkins	630,104	387,096	–	(523,200)	494,000	–
Ms A Manners (2)	–	322,580	–	–	322,580	–
Mr S Prior	191,066	–	(8,500)	(182,566)	–	–
	11,003,750	3,354,836	(8,500)	(5,280,206)	9,069,880	–

(1) Opening balance at date of becoming member of KMP

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

(3) Rights relating to Mr Cumins, Mr Reid and Mr Jenkins that lapsed during the period were issued in FY 2016. In addition to 82,018 rights issued in FY 2016 granted to Mr Prior that lapsed during the period, 100,548 rights issued to Mr Prior in FY 2017, were forfeited during the period.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

	Balance at 1 July 2016	Granted as remuneration	Rights exercised	Right lapsed / forfeited (3)	Balance at 30 June 2017	Balance vested at 30 June 2017
	Number	Number	Number	Number	Number	Number
Directors						
Mr S Grimshaw	–	–	–	–	–	–
Mr P Cumins	3,730,000	4,572,920	–	–	8,302,920	–
Ms E Comerford (1)	–	–	–	–	–	–
Mr K Dundo	–	–	–	–	–	–
Mr L Given	–	–	–	–	–	–
Ms A Waters (1)	–	–	–	–	–	–
Mr R Webb	–	–	–	–	–	–
Other key management personnel						
Mr M Reid	844,440	1,035,220	–	–	1,879,660	–
Mr N Carbone (1)	–	–	–	–	–	–
Mr M Cooke	–	–	–	–	–	–
Mr B Edwards (1)	–	–	–	–	–	–
Mr G Fee	107,552	111,012	–	(104,192)	114,372	17,000
Mr R Groom	1,305,226	1,506,120	–	(1,413,600)	1,397,746	76,666
Mr M Jenkins	523,200	106,904	–	–	630,104	–
Ms A Manners (1)	–	–	–	–	–	–
Mr S Prior	90,518	100,548	–	–	191,066	8,500
	6,600,936	7,432,724	–	(1,517,792)	12,515,868	102,166

(1) Opening balance at date of appointment / becoming member of KMP

(2) Closing balance at date of resignation

(3) Of the rights that were forfeited during the period, 30,184 were issued to Mr Fee and 409,520 to Mr Groom in FY 2016 and 74,008 to Mr Fee and 1,004,080 to Mr Groom in FY 2017.

Terms and conditions of share-based payment arrangements affecting remuneration of KMP in the current or future financial years is set out below:

Tranche	Grant date	Grant date fair value (i)	Exercise price	Expiry date	Vesting date
		\$	\$		
Tranche 12	25 Sep 2014	0.96	–	1 Jul 2017	1 Jul 2017
Tranche 13	18 Nov 2015	0.23	–	30 Jun 2018	30 Jun 2018
Tranche 14	18 Nov 2015	0.41	–	30 Jun 2018	30 Jun 2018
Tranche 15	28 Jan 2016	0.26	–	30 Jun 2018	30 Jun 2018
Tranche 16	28 Jan 2016	0.45	–	30 Jun 2018	30 Jun 2018
Tranche 17	23 Nov 2016	0.20	–	30 Jun 2019	30 Jun 2019
Tranche 18	23 Nov 2016	0.31	–	30 Jun 2019	30 Jun 2019
Tranche 19	12 Dec 2016	0.17	–	30 Jun 2019	30 Jun 2019
Tranche 20	12 Dec 2016	0.29	–	30 Jun 2019	30 Jun 2019
Tranche 21	14 Feb 2018	0.22	–	30 Jun 2020	30 Jun 2020
Tranche 22	14 Feb 2018	0.33	–	30 Jun 2020	30 Jun 2020

(i) The grant date fair value is calculated as at the grant date using a Monte Carlo pricing model for tranches 13, 15, 17, 19 and 21 and a binomial pricing model for other tranches.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

The following table outlines the value of equity granted to KMP during the year that may be realised in the future:

Name	Tranche	Number of rights	Value at grant		Value expensed in current year	Value to be expensed in future years
			Per right	Total		
			\$	\$	\$	\$
Mr M Reid	21	688,710	0.22	154,271	24,200	130,071
	22	688,710	0.33	228,597	35,858	192,739
Mr S Budiselik	21	193,548	0.22	43,355	6,801	36,554
	22	193,548	0.33	64,242	10,077	54,165
Mr N Carbone	21	193,548	0.22	43,355	6,801	36,554
	22	193,548	0.33	64,242	10,077	54,165
Ms M Cutten	21	53,226	0.22	11,923	1,870	10,053
	22	53,226	0.33	17,667	2,771	14,896
Mr B Edwards	21	193,548	0.22	43,355	6,801	36,554
	22	193,548	0.33	64,242	10,077	54,165
Mr M Jenkins	21	193,548	0.22	43,355	6,801	36,554
	22	193,548	0.33	64,242	10,077	54,165
Ms A Manners	21	161,290	0.22	36,129	5,667	30,462
	22	161,290	0.33	53,535	8,398	45,137
Total		3,354,836		932,510	146,276	786,234

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

9. Non-Executive Director fee policy rates for FY 2018 and FY 2019 and fee limit

Non-executive director fees are managed within the current annual fees limit (AFL or fee pool) of \$800,000 which was approved by shareholders on 18 November 2015 and it is anticipated that there will be no requirement for an increase of the AFL in FY 2019.

The following table outlines the NED Remuneration policy rates that were applicable as at the end of FY 2018.

The Non-Executive Director Remuneration policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed. The Board assessed the current level of NED fees for FY 2019 and determined that no change would be applicable to main Board and existing committee fees and approved an update to the policy to allow for the payment of an additional special purpose committee chair fee of \$7,500 from time to time.

Function	Role	Fee including superannuation
Main Board	Chair	\$170,000
	Member	\$95,000
Audit and risk committee	Chair	\$15,000
	Member	\$0
Remuneration committee	Chair	\$15,000
	Member	\$0
Special purpose committee	Chair	\$7,500
	Member	\$0

10. Remuneration records for FY 2018 (statutory disclosures)

The following table outlines the remuneration received by directors and senior executives who are classified as KMP of the Company during the years ended 30 June 2018 and 2017, prepared according to statutory disclosure requirements and applicable accounting standards:

	Short-term employee benefits				Post-employment benefits	Other long-term benefits	Share-based payments	Total
	Salary and fees	Cash STI	Non-monetary benefits	Termination benefits	Super-annuation			
	\$	\$	\$	\$	\$	\$	\$	\$
2018								
Non-executive directors								
Mr S Grimshaw	170,000	–	–	–	–	–	–	170,000
Ms E Comerford	100,457	–	–	–	9,543	–	–	110,000
Mr K Dundo	95,000	–	–	–	–	–	–	95,000
Mr L Given	95,000	–	–	–	–	–	–	95,000
Ms A Waters	117,500	–	–	–	–	–	–	117,500
Executive director								
Mr P Cumins	719,748	392,117	149,237	–	24,072	(1,469)	135,931	1,419,636
Other executives								
Mr M Reid	612,784	308,965	11,375	–	24,457	–	87,764	1,045,345
Mr S Budiselik (1)	322,754	167,239	–	–	27,271	–	16,878	534,142
Mr N Carbone	310,424	65,772	8,585	–	20,049	–	16,878	421,708
Mr B Cox (2)	31,589	50,000	961	–	1,709	–	–	84,259
Ms M Cutten (1)	238,472	50,930	8,585	–	20,049	–	4,641	322,677
Mr B Edwards	330,078	166,196	–	–	20,049	–	16,878	533,201
Mr M Jenkins	311,546	154,145	11,375	–	20,049	15,600	(14,852)	497,863
Ms A Manners (3)	129,633	32,942	5,610	–	10,024	–	–	178,209
Mr S Prior	241,337	–	11,375	99,218	20,049	(2,696)	(11,547)	357,736
Total	3,826,322	1,388,306	207,103	99,218	197,321	11,435	252,571	5,982,276

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

	Short-term employee benefits				Post-employment benefits	Other long-term benefits	Share-based payments	Total
	Salary and fees	Cash STI	Non-monetary benefits	Termination benefits	Super-annuation			
	\$	\$	\$	\$	\$	\$	\$	\$
2017								
Non-executive directors								
Mr S Grimshaw	170,000	-	-	-	-	-	-	170,000
Ms E Comerford (4)	16,918	-	-	-	25,478	-	-	42,396
Mr K Dundo	114,583	-	-	-	-	-	-	114,583
Mr L Given	106,250	-	-	-	-	-	-	106,250
Ms A Waters (4)	42,513	-	-	-	-	-	-	42,513
Mr R Webb (5)	59,375	-	-	-	-	-	-	59,375
Executive director								
Mr P Cumins	754,056	364,875	108,626	-	35,201	130,310	728,792	2,121,860
Other executives								
Mr M Reid	540,834	285,046	11,017	-	30,973	-	176,213	1,044,083
Mr N Carbone (6)	314,177	39,000	3,126	-	9,808	-	-	366,111
Mr M Cooke (7)	91,190	-	1,871	-	-	-	-	93,061
Mr B Edwards (8)	25,082	-	-	-	2,051	-	-	27,133
Mr G Fee	270,107	16,062	9,991	84,240	23,721	13,381	24,782	442,284
Mr R Groom	430,872	38,064	25,010	515,910	35,000	12,492	282,912	1,340,260
Mr M Jenkins	246,056	75,833	8,603	-	19,616	5,290	82,386	437,784
Ms A Manners (9)	94,353	-	3,834	-	7,180	-	-	105,367
Mr S Prior	266,604	39,168	11,017	-	19,616	4,047	20,058	360,510
Total	3,542,970	858,048	183,095	600,150	208,644	165,520	1,315,143	6,873,570

(1) Became KMP 3 July 2017

(2) Became KMP 27 May 2018

(3) Ceased to be KMP 1 January 2018

(4) Appointed 9 February 2017

(5) Retired 14 February 2017

(6) Appointed 1 January 2017

(7) Retired 31 August 2016

(8) Appointed 6 June 2017

(9) Appointed 24 February 2017

The STI values reported in this table are the STIs awarded for the performance period but are paid in the financial year following the year to which they relate (i.e. the value shown for 2018 is the value earned in FY 2018 and paid during FY 2019).

The LTI value reported in this table is the accounting charge of all grants, amortised over the vesting period. Where a market-based measure of performance is used as a vesting condition, such as iTSR, no adjustments can be made to the profit or loss to reflect rights that lapse unexercised. However, in relation to non-market vesting conditions, such as EPS, adjustments have been made to the profit or loss to reverse amounts previously expensed for rights that have lapsed during the period.

Both target and awarded values of STI and LTI remuneration are outlined in the relevant sections of the Remuneration Report to assist shareholders to obtain a more complete understanding of remuneration as it relates to senior executives.

11. Employment terms for KMP and Senior Executives

11.1 Employment contracts

The remuneration and other terms of employment for executive KMP are covered in formal employment contracts of an ongoing nature. All KMP are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment. The treatment of incentives in the case of termination is addressed in separate sections of this report that give details of incentive design. However, a retirement payments clause in KMP employment contracts qualifies that the amounts payable will be limited to the terms of Part 2D.2 of the Corporations Act.

A summary of contract terms in relation to executive KMP is presented below:

Name	Position held	Period of notice	
		From Company	From KMP
Mr P Cumins	Executive Deputy Chairman	12 months	6 months
Mr M Reid	Chief Executive Officer	12 months	12 months
Mr S Budiselik	Chief Operating Officer	6 months	6 months
Mr N Carbone	Chief Risk Officer	3 months	3 months
Mr B Cox	General Manager Corporate Distribution	3 months	3 months
Ms M Cutten	Chief Human Resources Officer	3 months	3 months
Mr B Edwards	General Counsel and Company Secretary	3 months	3 months
Mr M Jenkins	Chief Financial Officer	6 months	6 months
Ms A Manners *	Chief Manager Digital, Marketing and Product	6 months	6 months
Mr S Prior	Chief Operating Officer – Stores	3 months	3 months

* Ms Manners is no longer KMP as a result of reporting line changes effective 1 January 2018

On appointment to the Board, all NEDs enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director and does not include a notice period. NEDs are not eligible to receive termination payments under the terms of the appointments.

12. Other remuneration-related matters

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure:

- Mr Sam Budiselik's remuneration was reviewed and amended effective 1 January 2018 and increased to \$350,048 FAR as a result of additional accountabilities with change of role to Chief Operating Officer for the Company.
- Mr Ben Cox was employed under a contract by the Company from 6 March 2018. He was appointed in a permanent capacity as the General Manager Corporate Distribution effective 27 May 2018 with a remuneration package comprising \$289,465 FAR and 50% STI Target.
- Mr Ben Cox, General Manager Corporate Distribution is a Director and 20% shareholder of Cash Converters Yorkshire Ltd, a franchisee in the UK. As part of the restructure of Cash Converters UK operations, Cash Converters Yorkshire Ltd acquired 17 of the corporate stores from the Company. The purchase of these stores was funded by a loan from Cash Converters (UK) Ltd to Cash Converters Yorkshire Ltd of £2,631,731 made on 4 April 2016 and repayable over 6 years. As at 30 June 2018, the balance owing on the loan was £2,026,954. No repayments of the loan have been missed and the Company has no reason to believe the full repayment of the loan will not be met.

DIRECTORS' REPORT

For the year ended 30 June 2018

Remuneration report (audited) (continued)

- There were no other relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

The following summarises the treatment of remuneration in respect of those KMP who are no longer employed by the Company during or since the reporting period:

Mr Michael Cooke – Former Group Legal Counsel

The Company entered into a separate arrangement with Mr Cooke on 19 September 2016 for payment of a monthly retainer in regard to ongoing provision of legal services.

Mr Ralph Groom – Chief Financial Officer and Company Secretary and Mr Glen Fee – Chief Information Officer

In addition to contractual termination payments accounted for in FY 2017 and disclosed in Section 10, Mr Groom and Mr Fee continue to participate in the Company LTI Plan on a pro rata basis in Tranches 19 and 20. It is anticipated that this continued participation supports alignment with the interest of shareholders post the incumbents' separation from the Company.

13. External remuneration consultant advice

During the reporting period, the Board approved and engaged an external remuneration consultant (ERC) to provide KMP remuneration recommendations and advice. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

Godfrey Remuneration Group	<ul style="list-style-type: none">Fees for work undertaken in July 2017 including provision of a GRG Remuneration Guide accompanied by an advisory letter and re-drafting of the Remuneration Report for FY 2017.Work undertaken in September and October 2017 to draft:<ul style="list-style-type: none">a letter advising on executive remuneration and profiles,a discussion paper on salary sacrifice equity plans,a letter addressing LTI vesting conditions,a letter addressing the proposed short-term incentive,subscription to quarterly reporting of the iTSR metric for FY 2018, andsupport, replication, data and checking in relation to LTI grant calculations etc.	\$45,320
KBA Consulting Group	<ul style="list-style-type: none">Fees for work undertaken in April included a workshop and training session linked to the current LTI scheme and the drivers of the current vesting conditions	\$14,461

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related. The reasons the Board is so satisfied include that it is confident that the policy for engaging external remuneration consultants is being adhered to and is operating as intended, the Board has been closely involved in all dealings with the external remuneration consultants and any KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

This directors' report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Stuart Grimshaw', written in a cursive style.

Stuart Grimshaw

Director

Perth, Western Australia

27 August 2018

PERTH SOUP RUN

Community engagement



Community partnership was initiated with The Salvation Army on the back of the EU remediation.



2500kg

OF ITEMS

The Salvos participated at The Great Aussie Garage Sale collecting over 2500kg of items for their stores.





Seven days a week, 365 days a year, you'll find volunteers in a Salvation Army van serving a breakfast of soup, sandwiches, pies and coffee around Perth's CBD to people who otherwise might not have a substantial breakfast. Cash Converters staff volunteered their time to be part of the Perth Soup Run.

“Cashies is committed to fostering a culture of social responsibility and giving back to the community”.



CORPORATE GOVERNANCE

For the year ended 30 June 2018

The Company's most recent Corporate Governance Statement can be found on the Company's website at <http://www.cashconverters.com/Governance>.

The following governance-related documents can also be found in the Corporate Governance section of the Company's website:

- Board Charter
- Code of Conduct
- Continuous Disclosure Policy
- Securities Trading Policy
- Audit and Risk Committee Charter
- Remuneration and Nomination Committee Charter
- Gender Equality Report 2017–18
- Short-Term Incentive Policy and Procedure
- Long-Term Incentive Policy and Procedure
- Engaging External Remuneration Consultants Policy
- Non-Executive Director Remuneration Policy and Procedure
- Senior Executive Remuneration Policy and Procedure
- Diversity and Inclusion Policy

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Continuing operations			
Franchise fee revenue		14,665	15,444
Financial services interest revenue	2.1	166,502	174,440
Sale of goods	2.1	74,977	76,799
Other revenues	2.1	4,201	4,558
Total revenue		260,345	271,241
Financial services cost of sales	2.2	(47,620)	(49,609)
Cost of goods sold		(43,859)	(42,596)
Other cost of sales		(3,259)	(5,366)
Total cost of sales		(94,738)	(97,571)
Gross profit		165,607	173,670
Employee expenses	2.2	(69,099)	(75,754)
Administrative expenses	2.2	(8,005)	(8,302)
Advertising expenses		(10,767)	(10,844)
Occupancy expenses	2.2	(15,155)	(14,443)
Other expenses	2.2	(21,334)	(27,039)
Finance costs	2.2	(10,822)	(9,404)
Share of net profit of equity accounted investments	5.1	846	314
Profit before income tax		31,271	28,198
Income tax expense	2.3	(8,768)	(7,580)
Profit for the year		22,503	20,618
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		495	(1,208)
Other comprehensive income / (loss) for the year		495	(1,208)
Total comprehensive profit for the year		22,998	19,410
Profit attributable to:			
Owners of the Company		22,503	20,618
Non-controlling interest		—	—
		22,503	20,618
Total comprehensive profit / (loss) attributable to:			
Owners of the Company		22,998	19,410
Non-controlling interest		—	—
		22,998	19,410
Earnings / (loss) per share			
Basic (cents per share)	2.4	4.55	4.21
Diluted (cents per share)	2.4	4.43	4.11

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	4.1	139,991	80,571
Trade and other receivables	3.1	22,701	7,571
Loan receivables	3.2	118,962	87,933
Inventories	3.3	20,673	20,991
Prepayments		6,828	5,512
Current tax receivable		–	35
Total current assets		309,155	202,613
Non-current assets			
Trade and other receivables	3.1	5,560	23,480
Loan receivables	3.2	32,762	14,037
Plant and equipment	3.4	9,141	10,233
Deferred tax assets	2.3	8,614	9,879
Goodwill	3.5	106,967	107,009
Other intangible assets	3.6	30,150	26,987
Prepayments		1,498	–
Investments in associates	5.1	5,282	4,607
Total non-current assets		199,974	196,232
Total assets		509,129	398,845
Current liabilities			
Trade and other payables	3.7	19,485	21,288
Borrowings	4.2	139,351	46,303
Provisions	3.8	6,572	7,064
Current tax payable		466	–
Total current liabilities		165,874	74,655
Non-current liabilities			
Borrowings	4.2	18,996	60,934
Provisions	3.8	1,851	2,417
Total non-current liabilities		20,847	63,351
Total liabilities		186,721	138,006
Net assets		322,408	260,839
Equity			
Issued capital	4.4	248,714	210,203
Reserves		7,007	7,206
Retained earnings		66,687	43,430
Total equity		322,408	260,839

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	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 year		–	–	–	–	20,618	20,618
Exchange differences arising on translation of foreign operations		–	(1,208)	–	–	–	(1,208)
Total comprehensive income for the year		–	(1,208)	–	–	20,618	19,410
Dividend reinvestment plan		2,663	–	–	–	–	2,663
Share-based payments		–	–	–	1,331	–	1,331
Dividends paid		–	–	–	–	(4,850)	(4,850)
Transfer reserve balance to retained earnings		–	–	15,809	–	(15,809)	–
Balance at 30 June 2017		210,203	5,335	–	1,871	43,430	260,839
Profit for the year		–	–	–	–	22,503	22,503
Exchange differences arising on translation of foreign operations		–	495	–	–	–	495
Total comprehensive income for the year		–	495	–	–	22,503	22,998
Share-based payments		–	–	–	158	–	158
Shares issued under entitlement offer, net of issue costs	4.4	38,413	–	–	–	–	38,413
Shares issued on exercise of performance rights		98	–	–	(98)	–	–
Transfer reserve balance to retained earnings		–	–	–	(754)	754	–
Balance at 30 June 2018		248,714	5,830	–	1,177	66,687	322,408

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		173,934	196,661
Payments to suppliers and employees		(186,667)	(193,578)
Payment for settlement expense	2.2	–	(12,152)
Interest received		1,941	1,797
Interest received from personal loans		62,029	50,463
Net decrease / (increase) in personal loans advanced		(56,421)	4,487
Interest and costs of finance paid		(9,937)	(9,404)
Income tax refunded / (paid)		(6,428)	5,260
Net cash flows (used in) / provided by operating activities	2.7	(21,549)	43,534
Cash flows from investing activities			
Acquisition of intangible assets	3.6	(6,897)	(6,272)
Purchase of plant and equipment		(2,744)	(1,149)
Instalment credit loans repaid by franchisees		1,441	1,020
Net cash flows used in investing activities		(8,200)	(6,401)
Cash flows from financing activities			
Dividends paid		–	(2,186)
Proceeds from borrowings		186,000	57,500
Repayment of borrowings		(135,028)	(85,098)
Capital element of finance lease and hire purchase payment		(79)	(32)
Net proceeds from issue of shares		37,966	–
Net cash flows provided by / (used in) financing activities		88,859	(29,816)
Net increase in cash and cash equivalents		59,110	7,317
Cash and cash equivalents at the beginning of the year		80,571	73,609
Effects of exchange rate changes on the balance of cash held in foreign currencies		310	(355)
Cash and cash equivalents at the end of the year	4.1	139,991	80,571

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

These financial statements have been organised into the following six sections:

1. Basis of preparation
2. Financial performance
3. Assets and liabilities
4. Capital structure and financing costs
5. Group structure
6. Other items

Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used or information required to understand the note. The purpose of this format is to provide readers with a clearer understanding of what drives the financial performance and financial position of the Group.

(1) Basis of preparation

In this section

This section sets out the basis upon which the Group's financial statements are prepared as a whole. Specific accounting policies are described in the note to which they relate.

Cash Converters International Limited is a for-profit company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange.

The financial report of the Company for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of directors dated 27 August 2018.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except where noted. The financial report is presented in Australian dollars.

The financial report comprises the consolidated financial report of Cash Converters International Limited and its subsidiaries (the Group, as outlined in note 5.2). Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

(b) Changes to accounting policies

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations, including amendments to the existing standards issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments has not resulted in any significant changes to the Group's accounting policies nor any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

(1) Basis of preparation (continued)

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014–5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015–8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014–10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' and AASB 2015–10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
AASB 2016–5 'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'	1 January 2018	30 June 2019
AASB 2016–3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 2017–3 'Amendments to Australian Accounting Standards – Clarifications to AASB 4'	1 January 2018	30 June 2019
AASB Interpretation 22 'Foreign Currency Translation and Advance Consideration'	1 January 2018	30 June 2019
AASB 2017–4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	1 January 2019	30 June 2020
Long-term Interests in Associates and Joint Ventures Amendments to IAS 28 and Illustrative Example—Long-term Interests in Associates and Joint Ventures	1 January 2019	30 June 2020
Prepayment Features with Negative Compensation Amendments to IFRS 9	1 January 2019	30 June 2020

Impact of changes to Australian Accounting Standards and Interpretations

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. The Company has considered the potential impact of these new standards as outlined below.

AASB 9 'Financial Instruments', and the relevant amending standards

AASB 9 will be applied from 1 July 2018 and replaces AASB 139 'Financial instruments: Recognition and measurement'. AASB 9 significantly changes the recognition of impairment on customer receivables with the standard introducing an expected loss model. Under this approach impairment provisions are recognised based on the life time expected loss on a loan. This differs from the current incurred loss model under AASB 139 whereby impairment provisions are only recognised when there is objective evidence of impairment. The standard also includes a single approach for the classification and measurement of financial assets based on cash flow characteristics and the business model used for the management of the financial instruments. Of the changes that AASB 9 introduces, the Company has identified the impact of the revised credit provisioning approach, using the expected loss model, as having the most significant impact.

Under this expected loss model, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default:

- Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month probability of default, based on historic experience.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk. The expected loss is based on a lifetime probability of default, based on historic experience.
- Stage 3 – Accounts which have missed payments and are significantly in arrears. Provisions are based on expected losses based on historic experience.
- Provisions are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

The impact would be that impairment losses under AASB 9 are recognised in the profit or loss earlier in the life of the respective loan. This will result in a one-off adjustment to provisions for loan receivables and retained earnings / reserves on adoption of AASB 9. Cash Converters has modelled the impact of the changes on the impairment of customer receivables based on the 30 June 2018 loan book using the characteristics of the underlying loan books at that point in time. The modelling results indicate an increase in the allowance of \$9.4 million, from \$17.9 million to \$27.3 million at 30 June 2018. The one-off increase in the allowance on adoption of AASB 9 will result in an adjustment to retained earnings / reserves of \$6.6 million tax affected (assuming an effective tax rate of 30%).

AASB 15 ‘Revenue from Contracts with Customers’

AASB 15 replaces AASB 118 ‘Revenue’ and will be applied from 1 July 2018. AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures regarding revenue are also introduced.

An initial impact assessment has been performed and, based on material revenue streams in FY 2017, no significant risk of an impact to revenue recognition has been identified. This analysis considered the Company’s current accounting policies for material revenue streams to which the new standard applies, including retail goods sold and franchise fees. The Company will formalise its impact assessment during FY 2019.

AASB 16 ‘Leases’

AASB 16 replaces AASB 117 ‘Leases’ and will be applied from 1 July 2019. AASB 16 will significantly impact the accounting for operating leases as it requires the recognition of a lease liability, being the present value of future lease payments and corresponding right-of-use asset, which will initially be recognised at the same value as the lease liability or lower amount depending on the transition approach adopted. AASB 16 permits either a full retrospective or a modified retrospective approach for the adoption, and will primarily affect the accounting for the Group’s operating leases, including property leases at the corporate store network of 69 stores. As at the reporting date, the Group has non-cancellable operating lease commitments of \$39.667 million as detailed in Note 6.2.

The Company is currently assessing the impact of applying the new standard on the Group’s financial statements and the extent to which these commitments will result in the recognition of lease assets and liabilities for future lease payments and how this will affect the Group’s profit and classification of cash flows. As part of this process, a detailed review is currently being undertaken on the Group’s leasing arrangements using lease management software to calculate the AASB 16 adjustments required.

The financial impact of the new standard in the first year of adoption will be dependent on the Group’s lease arrangements in place when the new standard is effective, and the accounting approach adopted on transition, however on adoption of the new standard, the Group is currently estimating an increase in reported earnings before interest, tax, depreciation and amortisation (EBITDA) in excess of \$11 million, to be more than offset in the initial year of adoption by higher depreciation and interest expense resulting in a \$2 million to \$3 million reduction in reported profit after tax. The Group’s assets and liabilities are forecast to increase significantly following recognition of assets and liabilities representing the present value of the operating lease commitments. Current estimates suggest initial right-of-use assets and corresponding liabilities between \$50 million and \$60 million will be recognised upon initial adoption of the standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

(1) Basis of preparation (continued)

(c) Key judgements and estimates

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amount recognised in the financial statements:

- Recoverability of deferred tax assets – see note 2.3(g))
- Classification of contingent liabilities – see note 6.1

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- Impairment of goodwill and other intangible assets – see note 3.5 and 3.6
- Useful lives of other intangible assets – see note 3.6
- Impairment of financial assets (including personal loan receivables) – see note 3.2
- Impairment for inventory obsolescence – see note 3.3

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cash Converters International Limited and entities controlled by the Company and its subsidiaries (the Group, as outlined in note 5.3). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(e) Foreign currency

Both the functional and presentation currency of Cash Converters International Limited and its Australian subsidiaries is Australian dollars (\$). The functional and presentation currency of the non-Australian Group companies is the national currency of the country of operation.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Australian dollars at the rate of exchange ruling at the reporting date and the statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity, the foreign currency translation reserve.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Foreign currency differences arising on translation are recognised in the income statement.

(f) Other accounting policies

Significant and other accounting policies that summarise the measurement basis used, and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

(g) Rounding

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

(2) Financial performance

In this section

This section explains the results and performance of the Group. This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

- a) Accounting policies that are relevant for understanding the items recognised in the financial statements; and
- b) Analysis of the Group's result for the year by reference to key areas, including revenue, results by operating segment and income tax.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.1 Revenue

	2018 \$'000	2017 \$'000
<i>Financial services interest revenue</i>		
Personal loan interest and establishment fees	104,270	111,669
Pawn broking fees	29,383	29,057
Cash advance fee income	22,150	26,702
Vehicle loan interest and establishment fees	8,639	3,589
Other financial services revenue	2,060	3,423
	<u>166,502</u>	<u>174,440</u>
<i>Sale of goods</i>		
Retail sales	74,121	76,125
Vehicle trade sales	856	674
	<u>74,977</u>	<u>76,799</u>
<i>Other revenue</i>		
Bank interest	741	591
Other vehicle revenue	1,831	3,103
Other revenue	1,629	864
	<u>4,201</u>	<u>4,558</u>

Accounting policies

Franchise fees

Franchise fees and levies in respect of particular services are recognised as income when they become due and receivable and the costs in relation to the income are recognised as expenses when incurred.

Personal loan, cash advance, vehicle finance loan, vehicle lease and pawn broking interest

Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan establishment fee revenue

Establishment fees are deferred and recognised over the life of the loans at the effective interest rate applicable so as to recognise revenue at a constant rate to the underlying principal over the expected life of the loan.

Other vehicle revenue

Charges relating to the vehicle leases such as vehicle maintenance, warranty, registration and insurance are recognised over the life of the lease.

Other categories of revenue

Other categories of revenue, such as financial services commission and retail sales, are recognised when the Group has transferred the risks and rewards of the goods to the buyer or when the services are provided. Bank interest is recognised as earned on an accruals basis.

2.2 Expenses

	2018 \$'000	2017 \$'000
<i>Financial services cost of sales</i>		
Net bad and doubtful debt expense	31,660	29,527
Commissions	12,204	14,576
Other financial services cost of sales	3,756	5,506
	47,620	49,609
Refer below for details of finance costs.		
<i>Employee expenses</i>		
Employee benefits	64,091	69,416
Share-based payments	159	1,331
Superannuation expense	4,849	5,007
	69,099	75,754
<i>Administrative expenses</i>		
General administrative expenses	2,503	2,784
Communications expenses	1,669	2,119
IT expenses	2,923	2,523
Travel costs	910	876
	8,005	8,302
<i>Occupancy expenses</i>		
Rent	11,220	10,540
Outgoings	1,791	1,745
Other	2,144	2,158
	15,155	14,443
<i>Other expenses</i>		
Legal fees	3,097	5,209
Professional and registry costs	5,394	4,879
Auditing and accounting services	343	670
Bank charges	876	1,978
Other expenses from ordinary activities	3,941	6,180
Depreciation	3,081	3,580
Amortisation	4,364	3,717
Loss on write down of assets	238	826
	21,334	27,039
<i>Finance costs</i>		
Interest	10,820	9,339
Finance lease charge	2	65
	10,822	9,404

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.2 Expenses (continued)

Accounting policies

Employee benefits expense

The Group's accounting policy for liabilities associated with employee benefits is set out in note 3.8. The policy relating to share-based payments is set out in note 6.5.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 4.2 below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment

Impairment expenses are recognised to the extent that the carrying amount of assets exceeds their recoverable amount. Refer to note 3.5 for further details on impairment.

2.3 Taxation

This note sets out the Group tax accounting policies and provides an analysis of the Group's income tax expense / benefit and deferred tax balances, including a reconciliation of tax expense to accounting profit.

Income tax is accounted for using the balance sheet method. Accounting income is not always the same as taxable income, creating timing differences. These differences usually reverse over time. Until they reverse, a deferred tax asset or liability must be recognised in the statement of financial position.

(a) Consolidated income statement

The major components of tax expense are:

	2018 \$'000	2017 \$'000
<i>Current income tax expense</i>		
Current year	7,257	4,153
Adjustment for prior years	(330)	402
<i>Deferred income tax expense</i>		
Temporary differences	1,810	2,685
Adjustment for prior years	31	340
Income tax expense reported in income statement	8,768	7,580

	2018 \$'000	2017 \$'000
Tax reconciliation		
Profit before tax from continuing operations	31,271	28,198
Income tax at the statutory rate of 30% (2016: 30%)	9,381	8,459
Research and development tax benefits recognised	(298)	(958)
Adjustments relating to prior years	(1)	(20)
Income tax rate differential	(263)	(170)
Non-deductible items	325	203
Tax effect of share-based payment expense	48	399
Recognition of previously impaired tax losses	(424)	(341)
Other	–	8
Income tax expense on profit before tax	8,768	7,580
(b) Deferred tax		
Deferred income tax in the statement of financial position relates to the following:		
<i>Deferred tax assets</i>		
Allowance for doubtful debts	6,462	7,082
Accruals	671	665
Provision for employee entitlements	1,945	1,858
Other provisions	–	665
Other	477	1,665
Carry forward losses	2,750	2,620
	12,305	14,555
<i>Deferred tax liabilities</i>		
Fixed assets	(2,493)	(3,375)
Intangible assets	(1,198)	(1,301)
	(3,691)	(4,676)
Net deferred tax assets	8,614	9,879
<i>Reconciliation of net deferred tax assets</i>		
Opening balance at beginning of period	9,879	13,075
Tax (expense) / benefit during period recognised in profit or loss	(1,810)	(2,685)
Prior year adjustment	446	–
	(31)	(340)
Other	130	(171)
Closing balance at end of period	8,614	9,879

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.3 Taxation (continued)

(c) Unrecognised deferred tax balances

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

	2018 \$'000	2017 \$'000
Tax losses – revenue	4,160	4,904

(d) Carry forward tax losses

Carry forward losses of \$2.750 million (2017: \$2.620 million) have been recognised in relation to the Group's UK operations, which are profitable in the current year, however have had a recent history of losses. Refer to note 2.3(g) for further information supporting the recognition of these losses.

(e) Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Cash Converters International Limited. The members of the tax-consolidated group are identified in note 5.2.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Cash Converters International Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligation. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(f) Accounting policies

Current taxes

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, taxation authorities. All are calculated at the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affect neither taxable income nor accounting profit. A deferred tax liability is not recognised in relation to the temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(g) Key estimate: deferred tax assets

A net deferred tax asset of \$8.614 million (2017: \$9.879 million) has been recognised in the consolidated statement of financial position. This includes \$2.750 million (2017: \$2.620 million) of carried forward tax losses in relation to the Group's UK operations, which although profitable in the current year, have a recent history of losses. The UK tax losses have an indefinite availability period subject to satisfaction of the same ownership and continuity of business tests. A deferred tax asset for the UK operations has only been recognised to the extent tax losses are expected to be recoverable against future earnings.

In making this assessment, a forward-looking estimation of taxable profit was made, based on management's best estimate of future UK performance from continuing operations as at 30 June 2018.

Continuing operations in Australia were profitable during the current year and the Australian tax group is expected to continue to be profitable, therefore supporting the recognition of net deferred tax assets arising from temporary differences in Australia.

2.4 Earnings per share

Earnings per share (EPS) is the amount of post-tax profit / (loss) attributable to each share. Basic EPS is calculated on the Company's statutory profit for the year divided by the weighted average number of shares outstanding. Diluted EPS adjusts the basic EPS for the dilutive effect of any instruments, such as options, that could be converted into ordinary shares. The calculation of basic earnings per share has been based on the following profit / (loss) attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Reconciliation of earnings used in calculating earnings per share

	2018 \$'000	2017 \$'000
<i>Basic and diluted earnings per share</i>		
Profit / (loss) attributable to shareholders of the Company used in calculating earnings per share	22,503	20,618

Weighted average number of shares used as the denominator

	Number	Number
Weighted average number of shares – basic	494,462,348	490,327,477
Dilutive effect of performance rights	13,981,247	10,890,748
Weighted average number of shares – diluted	508,443,595	501,218,225

The number of potential ordinary shares not included in the above calculation is 9,819,506 (2017: 12,755,380), equating to a weighted average dilutive effect of 13,981,247 (2017: 10,890,748).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.5 Segment information

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

Franchise operations

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

Store operations

This segment involves the retail sale of new and second hand goods, cash advance and 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 administration services for the Cash Converters network in Australia to offer small cash advance loans to customers.

Vehicle financing

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

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

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

	Franchise operations \$'000	Store operations \$'000	Personal finance \$'000	Vehicle financing \$'000	Corporate head office \$'000	Total \$'000
Year ended 30 June 2018						
Interest revenue (i)	2,987	53,376	112,729	9,281	–	178,373
Other revenue	18,487	73,476	328	2,687	–	94,978
Gross revenue	21,474	126,852	113,057	11,968	–	273,351
Less inter-company sales	(1,868)	(8,312)	(3,567)	–	–	(13,747)
Segment revenue	19,606	118,540	109,490	11,968	–	259,604
External interest revenue (ii)	–	–	–	1	740	741
Total revenue	19,606	118,540	109,490	11,969	740	260,345
EBITDA (iii)	13,666	11,285	49,926	2,565	(27,666)	49,776
Less inter-company eliminations	(1,262)	4,502	(3,249)	9	–	–
Segment EBITDA	12,404	15,787	46,677	2,574	(27,666)	49,776
Depreciation and amortisation	(124)	(3,267)	(186)	(564)	(3,542)	(7,683)
EBIT	12,280	12,520	46,491	2,010	(31,208)	42,093
Interest expense	(276)	–	(5,073)	(1,128)	(4,345)	(10,822)
Profit / (loss) before tax from continuing operations	12,004	12,520	41,418	882	(35,553)	31,271
Year ended 30 June 2017						
Interest revenue (i)	2,981	56,511	121,652	5,372	–	186,516
Other revenue	17,900	75,222	–	3,777	–	96,899
Gross revenue	20,881	131,733	121,652	9,149	–	283,415
Less inter-company sales	(682)	(7,524)	(4,558)	–	–	(12,764)
Segment revenue	20,199	124,209	117,094	9,149	–	270,651
External interest revenue (ii)	–	13	97	12	468	590
Total revenue	20,199	124,222	117,191	9,161	468	271,241
EBITDA (iii)	11,172	12,318	54,014	(401)	(31,378)	45,725
Less inter-company eliminations	(682)	5,231	(4,542)	(7)	–	–
Segment EBITDA	10,490	17,549	49,472	(408)	(31,378)	45,725
Depreciation and amortisation	(149)	(3,859)	(1,116)	(69)	(2,930)	(8,123)
EBIT	10,341	13,690	48,356	(477)	(34,308)	37,602
Interest expense	–	–	(4,154)	(415)	(4,835)	(9,404)
Profit / (loss) before tax from continuing operations	10,341	13,690	44,202	(892)	(39,143)	28,198

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.5 Segment information (continued)

- (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

	2018 \$'000	2017 \$'000
Group assets by reportable segment		
Franchise operations	37,728	36,573
Store operations	80,822	73,409
Personal finance	219,941	186,195
Vehicle financing	47,129	24,977
Total of all segments	385,620	321,154
Unallocated assets	123,509	77,691
Consolidated total assets	509,129	398,845

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

Group liabilities by reportable segment

Franchise operations	5,663	6,879
Store operations	7,559	7,604
Personal finance	118,127	51,226
Vehicle financing	1,681	3,978
Total of all segments	133,030	69,687
Unallocated liabilities	53,691	68,319
Consolidated total liabilities	186,721	138,006

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

Other segment information

	Depreciation, amortisation and impairment		Additions to non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Franchise operations	124	104	1,640	570
Store operations	3,111	3,855	1,590	1,555
Personal finance	184	1,081	2,637	4,291
Vehicle financing	484	72	2,339	364
Total of all segments	3,903	5,112	8,206	6,780
Unallocated	3,542	2,185	1,528	224
Total	7,445	7,297	9,734	7,004

Geographical information

The Group operates in two principal geographical areas – Australia (country of domicile) and the United Kingdom. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	248,480	259,113	143,831	142,516
United Kingdom	11,222	11,389	2,427	1,713
Rest of world	643	739	–	–
	260,345	271,241	146,258	144,229

Non-current assets include property, plant and equipment, goodwill and other intangible assets, and exclude deferred tax assets, trade and other receivables and other financial assets.

2.6 Dividends

	2018		2017	
	Per share cents	Total \$'000	Per share cents	Total \$'000
Recognised amounts				
Final dividend – prior year 100% franked at 30%	–	–	1.00	4,850
Interim dividend – current year 100% franked at 30%	–	–	–	–
	–	–	1.00	4,850
Unrecognised amounts				
Final dividend – current year 100% franked at 30%	–	–	–	–

The Company did not pay a dividend in respect of the financial year ended 30 June 2017.

On 27 August 2018 the Company announced that there would be no final dividend in respect of the financial year ended 30 June 2018.

The Company has Australian franking credits available of \$66.109 million on a tax paid basis (2017: \$57.782 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.7 Notes to cash flow statement

Reconciliation of profit to net cash flow from operating activities:

	2018 \$'000	2017 \$'000
Profit / (loss) after tax	22,503	20,618
Non-cash adjustment to reconcile profit after tax to net cash flows:		
Amortisation	4,364	3,717
Depreciation	3,081	3,580
Share-based payments	159	1,331
Loss on disposal of non-current assets	238	826
Share of net (profit) / loss of equity accounted investment	(848)	(314)
Changes in assets and liabilities:		
Trade and loan receivables	(47,608)	14,786
Inventories	321	(3,469)
Other assets	(2,784)	3,879
Trade and other payables	(2,121)	(1,686)
Provisions	(1,196)	(12,574)
Income tax payables	2,342	12,840
Net cash provided by operating activities	(21,549)	43,534

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(3) Assets and liabilities

In this section

This section shows the assets used to generate Cash Converters' trading performance and the liabilities incurred as a result. Information on other assets and liabilities are in the following sections:

- Section 2 – Deferred tax assets and liabilities
- Section 4 – Financing activities
- Section 5 – Equity-accounted investments

3.1 Trade and other receivables

		2018 \$'000	2017 \$'000
Current			
Trade receivables	(i)	1,537	1,187
Allowance for impairment losses		(136)	(58)
Total trade receivables (net)		1,401	1,129
Finance lease receivables	(ii)	157	506
Vendor finance loans	(iii)	2,068	1,521
Loan to associate	(iv)	14,981	–
Other receivables	(v)	4,094	4,415
Total trade receivables		22,701	7,571
Non-current			
Finance lease receivables	(ii)	534	1,932
Vendor finance loans	(iii)	5,014	6,628
Loan to associate	(iv)	–	14,908
Other receivables	(v)	12	12
Total trade and other receivables		5,560	23,480

- (i) Trade receivables include weekly franchise fees, wholesale sales, pawn broking fees, cash advance fees, default fees and OTC fees. Where the collection of the debtor is doubtful, an allowance for impairment losses is recognised. The average credit period on sales is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter, interest is charged at 2% per month on the outstanding balance.
- (ii) The Group entered into finance lease arrangements with customers for leasing of vehicles. All leases are denominated in Australian dollars. The average term of finance leases entered into is 4 years. The Group ceased entering into such finance lease arrangements from March 2016.
- (iii) Vendor finance loans are loans made to purchasers of the Group's UK corporate stores during the prior year as part of the purchase agreement. The loans have various terms of up to 6 years, and bear interest at rates between nil and 9%. The receivables are held at amortised cost. No receivables are past due or impaired at 30 June 2018 (2017: nil).
- (iv) Commercial loan advanced to Cash Converters Holdings LP (New Zealand master franchisee) with a maturity date of 15 September 2018. Interest is charged quarterly at a rate of 8% per annum.
- (v) Other receivables include GST receivable, development agent fees outstanding, sub-master license sales, Mon-E fees, financial commission and instalment credit loans. None of these receivables are past due or considered impaired (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3.1 Trade and other receivables (continued)

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

	2018 \$'000	2017 \$'000
0 to 30 days	963	634
31 to 60 days past due not impaired	39	21
61 to 90 days past due not impaired	104	22
90 + days past due not impaired	295	452
Considered impaired	136	58
Balance at end of year	1,537	1,187

Accounting policy

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as trade and other receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Allowance for impairment losses

As at 30 June 2018, trade receivables and instalment credit loans of \$136 thousand (2017: \$58 thousand) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

Balance at beginning of year	58	2,309
Impairment losses recognised on receivables	88	58
Amounts written off as uncollectible	(12)	(2,309)
Foreign currency exchange differences	2	–
Balance at end of year	136	58

Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Not later than one year	1,725	3,309	937	1,768
Later than one year and not later than five years	504	1,734	534	1,932
	2,229	5,043	1,471	3,700
Less unearned finance income	(758)	(1,343)	–	–
Present value of minimum lease payments receivable	1,471	3,700	1,471	3,700
Allowance for uncollectible lease payments	(780)	(1,262)	(780)	(1,262)
	691	2,438	691	2,438

Unguaranteed residual values of assets leased under finance leases at the end of the reporting period are estimated at \$491 thousand (30 June 2017: \$1.312 million). The residual amounts have been excluded from the above calculations in the present value amounts – the amounts only relate to the minimum repayments.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 25.0% (30 June 2017: 26.0%) per annum.

3.2 Loan receivables

		2018 \$'000	2017 \$'000
Current			
Personal short-term loans (unsecured)	(i)	128,575	108,010
Allowance for impairment losses		(18,358)	(25,286)
Total personal short-term loans (net)		110,217	82,724
Vehicle finance loans (secured)	(ii)	10,765	6,064
Allowance for impairment losses		(1,506)	(377)
Deferred establishment fees		(514)	(478)
Total vehicle finance loans (net)		8,745	5,209
Total loan receivables		118,962	87,933
Non-current			
Personal short-term loans (unsecured)	(i)	3,277	–
Allowance for impairment losses		(164)	–
Total personal loans (net)		3,113	–
Vehicle finance loans (secured)	(ii)	31,305	14,037
Allowance for impairment losses		(162)	–
Deferred establishment fees		(1,494)	–
Total vehicle finance loans (net)		29,649	14,037
Total loan receivables		32,762	14,037

(i) The credit period provided in relation to personal short-term unsecured loans varies from 30 days to 12 months. Interest is charged on these loans at a fixed rate which varies dependent on the state or country of origin. An allowance has been made for estimated unrecoverable amounts arising from loans already issued, which has been determined by reference to past default experience. Before accepting any new customers, the Group uses an external scoring system to assess the potential customer's credit quality and define credit limits by customer. There is no concentration of credit risk within the personal loan book.

(ii) Vehicle finance loans are secured loans advanced for financing the purchase of vehicles. The average term of these loans is 4.5 years (2017: 4.6 years) and the average interest rate is 25.6% (2017: 25.0%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3.2 Loan receivables (continued)

	2018 \$'000	2017 \$'000
As at 30 June the ageing analysis of personal loan receivables was as follows:		
0 to 30 days	104,506	83,844
31 to 60 days past due not impaired	3,098	641
61 to 90 days past due not impaired	3,705	159
90 + days past due not impaired	2,328	139
Considered impaired	18,215	23,227
Balance at end of year	131,852	108,010

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

0 to 30 days	38,147	18,919
31 to 60 days past due not impaired	1,464	590
61 to 90 days past due not impaired	440	112
90 + days past due not impaired	351	103
Considered impaired	1,668	377
Balance at end of year	42,070	20,101

Allowance for impairment losses

As at 30 June 2018, personal loan receivables of \$18.522 million (2017: \$25.286 million) were impaired and fully provided for. Movements in the provision for impairment of personal loan receivables were as follows:

Balance at beginning of year	25,286	26,302
Impairment losses recognised on receivables	35,974	37,295
Amounts written off as uncollectible	(42,738)	(38,311)
Balance at end of year	18,522	25,286

In determining the recoverability of a personal loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

As at 30 June 2018 vehicle finance loan receivables of \$1.668 million (2017: \$377 thousand) were impaired and fully provided for. Movements in the provision for impairment of vehicle finance loan receivables were as follows:

Balance at beginning of year	377	30
Impairment losses recognised on receivables	2,155	347
Amounts written off as uncollectible	(864)	–
Balance at end of year	1,668	377

In determining the recoverability of a vehicle finance loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. As the current customer base is relatively small, the Group has made a provision based on known historical losses and reasonable estimation of expected future losses. As these loans are secured by the underlying vehicle financed, the total loss will be reduced by the recoverable amount. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Accounting policy

Loan receivables that have fixed or determinable payments that are not quoted in an active market are classified as loan receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Key estimate – impairment of financial assets

The impairment of personal loans requires the Group to assess impairment regularly. The credit provisions raised (specific and collective) represent management's best estimate of the losses incurred in the loan portfolio at reporting date based on their experienced judgment. The collective provision is estimated based on historical loss experience for assets with similar credit characteristics. The historical loss experience is adjusted based on current observable data and events. The use of such judgments and reasonable estimates is considered appropriate.

During the current year, the directors determined that the estimates for the specific provision for personal loans should be reduced, to reflect the improved credit quality of the personal loan book and reduction in losses over the preceding year compared to historic levels. These developments are a result of the comprehensive overhaul of the personal loan assessing platform and introduction of a revised Income and Expenditure process in March 2017, which improved the assessment of loan applicant affordability. Additionally, the Group has additional information with respect to the recoverability of the MACC loan product which was launched in October 2016 with tighter credit criteria attracting a lower risk customer demographic compared to the SACC loan book.

The impact of this change in estimates has been made prospectively in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', and reduced the allowance for impairment losses as at 30 June 2018 by \$1.186 million. As the provision is made on the current balance of the loan books at a point in time, it is not possible to accurately estimate what the impact will be on future periods.

The impact of the future adoption of the expected credit loss model for impairment, as required under AASB 9 'Financial Instruments' has been included in note 1(b) and will be applicable to the Company for the year ending 30 June 2019.

3.3 Inventories

	2018 \$'000	2017 \$'000
New and pre-owned goods at cost	21,164	20,651
Provision for obsolete stock	(534)	–
New and pre-owned goods (net)	20,630	20,651
New and used motor vehicles at cost	43	340
	20,673	20,991

Accounting policies

Inventories are valued at the lower of cost and net realisable value. Costs, including purchase costs on a first in first out basis are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3.3 Inventories (continued)

With a significant proportion of inventory being jewellery, which retains its value, acquired from customers across 69 corporate stores (2017: 71) and due to the diverse range of other products, the overall exposure to obsolescence is low. Inventory is discounted in stores as it ages in order to effect a sale. At the reporting date a provision was made for inventory where the retail price was below cost. The provision amount was the difference between the marked down price and original cost. An additional provision was also made against the expected loss on sale of any other general inventory (non-jewellery) that was over 1 year old.

3.4 Plant and equipment

	Leasehold improvements	Plant and equipment	Leasehold improvements under finance lease	Total
	\$'000	\$'000	\$'000	\$'000
Cost				
Balance at 1 July 2016	12,345	13,119	1,048	26,512
Additions	543	666	–	1,209
Transfers between asset categories	772	276	(1,048)	–
Transfers to intangible assets	–	(1,020)	–	(1,020)
Disposals	–	(1,298)	–	(1,298)
Foreign currency exchange differences	(4)	(39)	–	(43)
Balance at 30 June 2017	13,656	11,704	–	25,360
Additions	391	1,884	–	2,275
Transfers between asset categories	17	(17)	–	–
Disposals	(618)	(1,529)	–	(2,147)
Foreign currency exchange differences	3	31	–	34
Balance at 30 June 2018	13,449	12,073	–	25,522
Depreciation and impairment				
Balance at 1 July 2016	5,233	6,473	953	12,659
Disposals	–	(1,070)	–	(1,070)
Transfers between asset categories	181	772	(953)	–
Depreciation expense	1,688	1,892	–	3,580
Foreign currency exchange differences	(4)	(38)	–	(42)
Balance at 30 June 2017	7,098	8,029	–	15,127
Disposals	(532)	(1,324)	–	(1,856)
Depreciation expense	1,647	1,434	–	3,081
Foreign currency exchange differences	3	26	–	29
Balance at 30 June 2018	8,216	8,165	–	16,381
Net book value				
As at 30 June 2017	6,558	3,675	–	10,233
As at 30 June 2018	5,233	3,908	–	9,141

Accounting policies

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	8 years
Plant and equipment	5 years
Equipment under finance lease	5 years
Fixtures and fittings	8 years

3.5 Goodwill

	2018 \$'000	2017 \$'000
Gross carrying amount		
Balance at beginning of year	107,009	107,009
Goodwill written off on closure of stores	(42)	–
Balance at end of year	106,967	107,009

Accounting policies

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata based on the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Allocation of goodwill to CGUs

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

Personal finance	90,561	90,561
Store operations	16,406	16,448
	106,967	107,009

Impairment losses recognised

No impairment losses have been recognised in the years ended 30 June 2018 or 30 June 2017.

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For the year ended 30 June 2018

3.5 Goodwill (continued)

Impairment testing and key assumptions

Impairment testing approach applicable to all CGUs

Impairment modelling for each CGU has been prepared separately based on a value in use model which uses cash flow projections based on budgets approved by management covering a five-year period. Cash flows beyond the five-year period are estimated using a terminal value calculated based on a terminal growth rate under standard valuation principles.

Key assumptions are based on a combination of past experience for mature products and external sources (market data) for less mature products and economic metrics such as interest rates. In FY 2019 growth in lending volumes compared to FY 2018 is expected to be driven primarily by the Medium Amount Credit Contract (MACC) product which was launched in FY 2017 and experienced growth during FY 2018.

Working capital requirements are factored into the modelling based on historic requirements for each CGU, and vary in line with earnings growth. Capital investment, required to run the business (i.e. replacement and non-expansionary capital expenditure) has been included based on budgeted amounts for the next financial year and incremental growth in subsequent years consistent with increasing revenues.

The recoverable value of all non-current assets, including goodwill, property, plant and equipment (note 3.4) and other intangible assets (note 3.6) is assessed using the impairment testing as outlined in this note.

Impact of regulations

The Personal Finance business operates in a regulated industry. The impairment testing for this business segment is based on management's expectation of performance, taking into account applicable legislative requirements at the date of the impairment testing, being 30 June 2018. Any material change to legislation impacting this business in future periods may have a significant positive or negative impact on future performance and may result in an impairment.

The following key assumptions were used in the impairment testing:

Assumption	Personal finance	Store operations
2019 budget revenue growth / (reduction)	13%	(0%)
2019 budget expense growth / (reduction)	17%	(2%)
Revenue growth rate > 1 year	(1%) – 5%	3% – 4%
Expense growth rate > 1 year	(1%) – 6%	2%
Terminal growth rate > 5 years	2.5%	2.5%
Pre-tax discount rate applied to cash flows	15.8%	15.8%

Bad debt rates have been forecast based on historic average rates and are adjusted in future periods to move towards industry and historical averages for individual products experienced by the Group. This projection reflects the benefits of the enhanced credit assessment processes which have been implemented, and consequent anticipated lower bad debt rates.

For the year ended 30 June 2017 the key assumptions used included:

- 2018 growth rates for revenue and expenses in Personal finance of -7% and -5% respectively, in the following years growth rates ranged from +1% to +5% for revenue and -2% to +2% for expenses;
- 2018 growth rates for revenue and expenses in Store operations of -3% and -5% respectively, in the following years growth rates ranged from +1% to +3% for revenue and +2% to +3% for expenses;
- Pre-tax discount rates ranging from 14.9% to 16.0% and terminal growth rates of 2.5%.

Impairment sensitivity disclosures

Based on the impairment testing completed for all CGUs, management believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of each CGU as at 30 June 2018.

Reasonably possible changes are considered in the context of regulatory requirements that have been enacted or substantively enacted at the date of the impairment testing, or where the outcome of future changes can reasonably be modelled at the date of impairment testing.

With this in mind, potential future legislative changes not yet enacted or substantively enacted may significantly impact the Group's operations, should they be introduced in future periods.

As disclosed in note 3.5 of the 30 June 2017 annual report, on 28 November 2016, the Minister for Revenue and Financial Services issued a media release in response to the Final Report of the Small Amount Credit Contract (SACC) Law Review advising that the Government supports most of the recommendations, in part or in full, of the Final Report. One of the recommendations is to extend the SACC protected earnings amount (PEA) requirement to all consumers, and lowering it to 10 per cent of the consumer's net income. The Company is continuing discussions with the Government around these recommendations, with no changes to the applicable SACC legislation having currently been enacted.

Consequently, there is significant uncertainty with respect to the timing of enacting any legislative change, as well as the final scope and form of any eventual change, if any.

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. Refer to note 2.5 for further information on the Group's 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 current proposed form from 1 November 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 \$45 million to \$55 million (2017:\$35 million to \$48 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, at both the date of impairment testing and the date of this report there is no certainty that any change to applicable legislation will be made or the timing of any such change.

3.6 Other intangible assets

Allocation of other intangible assets to CGUs

Other intangible assets are allocated to their respective CGU and tested for impairment when impairment indicators are identified. Refer to note 3.5 for details of impairment testing. The recoverable value of other intangible assets is assessed using the same assumptions and methods as the goodwill for the related CGUs.

No impairment has been recognised in the year ended 30 June 2018 (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3.6 Other intangible assets (continued)

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

	2018 \$'000	2017 \$'000
Franchise operations (excluding UK)	6,213	9,771
Franchise operations (UK)	2,939	2,805
Personal finance	14,100	8,491
Store operations	6,241	4,673
Vehicle financing	657	1,247
	30,150	26,987

Categories of other intangible assets

	Reacquired rights \$'000	Trade names & customer relationships \$'000	Software \$'000	Total \$'000
Cost				
Balance at 1 July 2016	7,699	16,868	14,520	39,087
Additions	–	–	6,305	6,305
Transfers from plant & equipment	–	–	1,020	1,020
Disposals	–	–	(2,719)	(2,719)
Foreign currency exchange differences	(61)	–	4	(57)
Balance at 30 June 2017	7,638	16,868	19,130	43,636
Additions	–	–	7,458	7,458
Disposals	(80)	(18)	(21)	(119)
Foreign currency exchange differences	46	–	42	88
Balance at 30 June 2018	7,604	16,850	26,609	51,063
Amortisation and impairment				
Balance at 1 July 2016	3,986	7,387	3,680	15,053
Disposals	–	–	(2,109)	(2,109)
Amortisation expense	542	964	2,211	3,717
Foreign currency exchange differences	(12)	–	–	(12)
Balance at 30 June 2017	4,516	8,351	3,782	16,649
Disposals	(80)	(18)	(14)	(112)
Amortisation expense	513	379	3,472	4,365
Foreign currency exchange differences	12	–	–	12
Balance at 30 June 2018	4,961	8,712	7,240	20,913
As at 30 June 2017	3,122	8,517	15,348	26,987
As at 30 June 2018	2,643	8,138	19,369	30,150

Accounting policies

Reacquired rights and Customer relationships acquired through business combinations are recognised at fair value at acquisition date less accumulated amortisation and impairment.

Trade names relating to repurchased sub-master licenses both overseas and in Australia are recognised at cost less accumulated amortisation.

Software development expenditure is recognised as an asset when it is possible that future economic benefits attributable to the asset will flow. Software assets are recognised at cost less accumulated amortisation.

Intangible assets are amortised as follows:

Asset	Amortisation period
Reacquired rights	The remaining life of each franchise agreement as at the acquisition date
Customer relationships	Useful life of 5 years based on historic average customer relationships
Trade names	Useful life which is not more than 100 years
Software	Useful life of between 5 and 8 years based on historic experience

Key estimate – useful lives of other intangible assets

The Company reviews the estimated useful lives of other intangible assets at the end of each annual reporting period. The estimation of the remaining useful lives of other intangible assets requires the entity to make significant estimates based on both past performance and expectations of future performance.

3.7 Trade and other payables

	2018 \$'000	2017 \$'000
Current		
Trade payables	3,691	2,495
Accruals	15,794	18,793
	<u>19,485</u>	<u>21,288</u>

The Group has financial risk management policies in place to ensure that all payables are paid within the allowed credit period in order to avoid the payment of interest on outstanding accounts.

3.8 Provisions

Current			
Employee benefits		5,666	5,834
Fringe benefits tax		36	168
Onerous lease contracts	(i)	864	1,055
Other		6	7
		<u>6,572</u>	<u>7,064</u>
Non-current			
Employee benefits		817	790
Onerous lease contracts	(i)	1,034	1,627
		<u>1,851</u>	<u>2,417</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3.8 Provisions (continued)

Accounting policies

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and personal leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(4) Capital structure and financing costs

In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Board determines the appropriate capital structure of the Group, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance the Group's activities both now and in the future.

The Board considers the Group's capital structure and its dividend policy at least twice a year ahead of announcing results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan.

4.1 Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash on hand	2,700	2,991
Cash at bank	137,291	77,580
	139,991	80,571

Cash at bank includes restricted cash of \$4.495 million (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. The facility prescribes that cash deposited in this account can only be used to fund new principal advances. Surplus funds at the end of the period are redistributed in keeping with the terms of the securitisation facility. Cash at bank includes a further \$5.730 million (2017: \$5.482 million) on deposit as security for banking facilities.

4.2 Borrowings

		2018 \$'000	2017 \$'000
Current			
Securitisation facility	(i)	79,393	44,426
Loans – vehicle finance	(ii)	–	1,799
Bonds	(iii)	59,958	–
Hire purchase and lease liabilities		–	78
		<u>139,351</u>	<u>46,303</u>
Non-current			
Securitisation facility	(i)	18,996	–
Loans – vehicle finance	(ii)	–	1,229
Bonds	(iii)	–	59,705
		<u>18,996</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 Group 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 high quality fully maintained vehicles for the use of Green Light Auto'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.

Reconciliation of liabilities arising from financing activities

	2017	Cash flows	Non-cash changes Borrowing costs	2018
	\$'000	\$'000	\$'000	\$'000
Securitisation facility	44,426	54,000	(37)	98,389
Loans – vehicle finance	3,028	(3,028)	–	–
Bonds	59,705	–	253	59,958
Lease liabilities	78	(78)	–	–
Total liabilities from financing activities	<u>107,237</u>	<u>50,894</u>	<u>216</u>	<u>158,347</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

4.2 Borrowings (continued)

Accounting policies

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Financing arrangements

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

	2018 \$'000	2017 \$'000
Total facilities		
Securitisation facilities	150,000	100,000
Bond	60,000	60,000
	<hr/> 210,000	<hr/> 160,000
Used at balance date		
Securitisation facilities	99,500	45,500
Bond	60,000	60,000
	<hr/> 159,500	<hr/> 105,500
Unused at balance date		
Securitisation facilities	50,500	54,500

Refer to note 4.3 for further information in relation to financial instruments.

Loan covenants and review events

The Group has borrowing facilities which are subject to various covenants and review events. The securitisation has various eligibility criteria which the receivables of the Group must meet to be funded under the facility. Under the bond facility, amongst other covenants, the Group must maintain sufficient interest cover in the event of new financial indebtedness being incurred and requires dividends only be paid out of available profits. During the reporting period there have been no events that would cause these covenants to be breached.

4.3 Financial risk factors

The Group's activities expose the Group to a variety of financial risks: market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Financial risk and capital management is carried out in accordance with policies approved by the Board. The Board reviews and approves written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rates, liquidity, foreign exchange and credit risk. The Audit and Risk Committee assists the Board in monitoring the implementation of risk management policies

(a) Categories of financial instruments

	2018 \$'000	2017 \$'000
Financial assets		
Cash and cash equivalents	139,991	80,571
Trade and other receivables	28,261	31,051
Personal loan receivables	151,724	101,970
	<u>319,976</u>	<u>213,592</u>
Financial liabilities		
Trade and other payables	19,485	21,288
Borrowings	158,347	107,237
	<u>177,832</u>	<u>128,525</u>

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

(b) Financial risk management objectives

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

(c) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are relatively small and spot rates are normally used to translate transactions into the reporting currency. There are no foreign currency denominated monetary assets or monetary liabilities in the Group at the reporting date (2017: nil) other than in the functional currency of the operating entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

4.3 Financial risk factors (continued)

(e) Interest rate risk management

The Company and the Group are exposed to interest rate risk as entities in the consolidated Group borrow funds at variable rates and place funds on deposit at variable rates. Loans issued by the Group are at fixed rates. The risk is managed by the Group by monitoring interest rates.

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis point increase or decrease is used because this represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase/decrease by approximately \$74 thousand (2017: increase/decrease by approximately \$61 thousand).

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group measures credit risk on a fair value basis. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than its franchisees. The Group has a policy of obtaining sufficient collateral or other securities from these franchisees. The majority of loans within the financing division relate to loans made by Cash Converters Personal Finance and Green Light Auto which may be both secured and unsecured loans. Credit risk is present in relation to all unsecured loans made which is managed within an agreed corporate policy on customer acceptance and ongoing review of recoverability.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Included in note 4.2 is a listing of additional undrawn facilities that the Company / Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

Financial liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are at floating rates, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	1 year or less	1 to 5 years	More than 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
2018					
Non-interest bearing	0.00	19,485	–	–	19,485
Fixed interest rate instruments	7.95	60,752	–	–	60,752
Variable interest rate instruments	8.72	79,393	18,997	–	98,390
		159,630	18,997	–	178,627
2017					
Non-interest bearing	0.00	21,288	–	–	21,288
Finance lease liability – fixed rate	7.59	83	–	–	83
Fixed interest rate instruments	7.93	1,936	66,565	–	68,501
Variable interest rate instruments	7.67	44,426	–	–	44,426
		67,733	66,565	–	134,298

Financial assets

The following table details the Group's expected maturity for its financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company / Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	1 year or less	1 to 5 years	More than 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
2018					
Non-interest bearing	0.00	30,540	–	–	30,540
Fixed interest rate instruments	94.1	255,260	68,677	–	323,937
Variable interest rate instruments	1.65	84,605	–	–	84,605
		370,405	68,677	–	439,082
2017					
Non-interest bearing	0.00	35,032	–	–	35,032
Fixed interest rate instruments	105.39	179,223	46,452	–	225,675
Variable interest rate instruments	2.10	33,224	–	–	33,224
		247,479	46,452	–	293,931

The amounts included above for variable interest rate instruments for both assets and liabilities are subject to change if actual rates differ from those applied in the above average calculations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

4.3 Financial risk factors (continued)

(h) Fair value of financial instruments

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

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

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

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

At 30 June 2018 and 30 June 2017, the Group has no material financial assets and liabilities that are measured on a recurring basis at fair value.

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

At 30 June 2018 and 30 June 2017, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

The fair value of the monetary financial assets and financial liabilities is based upon market prices where a market price exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

4.4 Issued capital

	2018 Number	2017 Number	2018 \$'000	2017 \$'000
Balance at beginning of year	493,047,424	484,976,037	210,203	207,540
Issued during the year				
Dividend reinvestment plan	–	8,071,387	–	2,663
Shares issued on exercise of performance rights	102,166	–	98	–
Entitlement offer	123,288,356	–	39,452	–
Share issue costs	–	–	(1,039)	–
Balance at end of year	616,437,946	493,047,424	248,714	210,203

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the Corporations Act abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

(5) Group structure

In this section

This section provides information to assist users understand how the Group structure affects the financial position and performance of the Group as a whole. The Group includes entities that are classified as associates, which are accounted for using the equity method.

In this section of the notes there is information about:

1. Changes to the structure that occurred during the prior year as a result of business combinations or the disposal of a discontinued operation;
2. Investments in associates;
3. Composition of the Group; and
4. Parent entity financial information.

5.1 Investment in associates

Balances of the investments in associates and joint ventures are as follows:

	2018 \$'000	2017 \$'000
Balance at beginning of year	4,607	4,295
Net profit for year	846	314
Foreign exchange adjustment in value of investment	(171)	(2)
Balance at end of year	5,282	4,607

Associates are those entities over which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

The financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. If the Company's share of losses exceeds its interest in an associate, their carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

During the year, the Company held an investment in the Cash Converters Holdings Limited Partnership, the master franchisor in New Zealand. The Company holds a 25% equity interest (ownership and voting interest) in all aspects of the New Zealand enterprise, including corporate stores, franchise contracts and financial services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

5.2 Controlled entities

(a) Composition of the Group

Controlled entities of Cash Converters International Limited:

Name of entity	Country of incorporation	Ownership interest	
		2018	2017
BAK Property Pty Ltd (1)	Australia	100%	100%
Cash Converters (Cash Advance) Pty Ltd (1) (2)	Australia	100%	100%
Cash Converters Finance Corporation Limited (3)	Australia	64.33%	64.33%
Cash Converters (NZ) Pty Ltd	Australia	100%	100%
Cash Converters Personal Finance Pty Ltd (1) (2)	Australia	100%	100%
Cash Converters Pty Ltd (1) (2)	Australia	100%	100%
Cash Converters (Stores) Pty Ltd (1) (2)	Australia	100%	100%
Cash Converters UK Holdings PLC	UK	100%	100%
Cash Converters USA, Inc (3)	USA	99.285%	99.285%
Cash Converters USA Limited (3)	Australia	99.285%	99.285%
Finance Administrators of Australia Pty Ltd (1) (2)	Australia	100%	100%
Green Light Auto Group Pty Limited (1) (2)	Australia	100%	100%
Mon-E Pty Ltd (1) (2)	Australia	100%	100%
Safrock Finance Corporation (QLD) Pty Ltd (1) (2)	Australia	100%	100%
Safrock Finance Corporation WA Pty Ltd (1) (2)	Australia	100%	100%
CCPF Receivables Trust No 1	Australia	100%	100%

(1) These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2018.

(2) These companies are members of the tax consolidated group.

(3) Non-controlling interest is not considered material in these subsidiaries.

(b) Deed of cross guarantee

Cash Converters International Limited and certain wholly-owned companies (the Closed Group), identified in (a) above, are parties to a Deed of Cross Guarantee (the Deed). The effect of the Deed is that members of the Closed Group guarantee to each creditor payment in full of any debt in the event of winding up of any of the members under certain provisions of the Corporations Act 2001. ASIC Corporations Instrument 2016/785, issued on 28 September 2016, provides relief to parties to the Deed from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports, subject to certain conditions as set out therein.

Pursuant to the requirements of this Corporations Instrument, a summarised consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018 and consolidated Statement of Financial Position as at 30 June 2018, comprising the members of the Closed Group after eliminating all transactions between members are set out on the following pages.

Summarised statement of profit or loss and comprehensive income

	2018 \$'000	2017 \$'000
Profit / (loss) before income tax	28,908	26,513
Income tax benefit / (expense)	(8,768)	(7,580)
Total comprehensive income	20,140	18,933

Summary of movements in Closed Group's retained earnings

Retained earnings at beginning of year	83,022	84,748
Transfer reserve balance	754	(15,809)
Net profit / (loss)	20,140	18,933
Dividends paid or provided for	–	(4,850)
Retained earnings at end of year	103,916	83,022

Statement of financial position

Current assets

Cash and cash equivalents	131,541	74,645
Trade receivables	19,675	5,243
Loan receivables	118,962	87,933
Inventories	20,673	20,899
Prepayments	6,261	5,305
Total current assets	297,112	194,025

Non-current assets

Trade and other receivables	18,130	33,364
Loan receivables	32,762	14,037
Plant and equipment	8,964	10,230
Deferred tax assets	5,864	10,927
Goodwill	106,967	107,009
Other intangible assets	27,900	25,276
Prepayments	1,498	–
Investments in associates	5,282	4,607
Other financial assets	30,250	30,250
Total non-current assets	237,617	235,700
Total assets	534,729	429,725

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

5.2 Controlled entities (continued)

	2018 \$'000	2017 \$'000
Current liabilities		
Trade and other payables	15,719	17,091
Borrowings	139,351	46,303
Provisions	5,709	6,009
Current tax payable	466	3,633
Total current liabilities	161,245	73,036
Non-current liabilities		
Borrowings	18,996	60,934
Provisions	817	790
Total non-current liabilities	19,813	61,724
Total liabilities	181,058	134,760
Net assets	353,671	294,965
Equity		
Issued capital	248,714	210,203
Reserves	1,041	1,740
Retained earnings	103,916	83,022
Total equity	353,671	294,965

5.3 Parent entity disclosures

The financial information of the parent entity, Cash Converters International Limited has been prepared on the same basis as the consolidated financial report.

(a) Statement of financial position

Assets		
Current assets	2	35
Non-current assets	315,385	276,315
Total assets	315,387	276,350
Liabilities		
Current liabilities	60,466	–
Non-current liabilities	–	60,000
Total liabilities	60,466	60,000
Net assets	254,921	216,350

	2018 \$'000	2017 \$'000
Equity		
Issued capital	248,714	210,203
Reserves	1,177	1,871
Retained earnings	5,030	4,276
Total equity	254,921	216,350

(b) Comprehensive income

Profit for the year	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–

(c) Guarantees entered into by parent entity in relation to the debts of its subsidiaries

Cross guarantees have been provided by the parent entity and its controlled entities as listed in note 5.2.

Guarantee provided under the deed of cross guarantee (1)	2,307	2,199
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(1) Cash Converters International Limited has provided a cross guarantee to HSBC for a BACS facility provided to CCUK.

(6) Other items

In this section

This section includes additional information not disclosed elsewhere in the report but required to be disclosed to comply with the Accounting Standards, the Corporations Act 2001 or the Corporations Regulations.

6.1 Contingent liabilities

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

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 claim 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 claim on behalf of borrowers resident in Queensland who took out cash advance loans during the period from 28 April 2010 to 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

6.1 Contingent liabilities (continued)

Both these proceedings relate to the brokerage fee charged to customers. The brokerage fee system has not been used since 30 June 2013. Cash Converters is vigorously defending these proceedings, with trial listed for October 2018 and therefore no provision has been made. Given the current stage of the proceedings, the financial impact of either class action on Cash Converters cannot be reliably and accurately determined at this time. However, if Cash Converters does not successfully defend either or both of the proceedings, Cash Converters would likely be required to make a significant payment by way of damages or settlement, which could have a material adverse impact on the financial performance and position of Cash Converters.

The directors are not aware of any other material contingent liabilities in existence as at 30 June 2018 requiring disclosure in the financial statements.

6.2 Commitments

Operating leases

Operating leases relate to office accommodation and retail premises with lease terms of between 5 to 10 years, with an option to extend for a further 5 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

Non-cancellable operating lease commitments payable:

	2018 \$'000	2017 \$'000
Within one year	10,593	10,164
One to five years	25,969	24,664
Later than five years	3,105	5,133
	<u>39,667</u>	<u>39,961</u>

Capital expenditure

As at 30 June 2018, capital expenditure commitments were nil (2017: nil).

Other contractual commitments

Within one year	246	535
One to five years	256	502
	<u>502</u>	<u>1,037</u>

6.3 Related party disclosures

The immediate parent and ultimate controlling party of the Group is Cash Converters International Limited.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

During the year an amount of \$120,000 (2017: \$120,000) was paid to an entity related to the beneficial owner of EZCORP Inc, the Company's largest shareholder for consulting services.

In June 2018, Brodie Cumins was appointed to the role of Franchise Network Manager, reporting to the CEO. The position became vacant upon the resignation of the previous incumbent. Brodie Cumins is the son of Executive Deputy Chairman Peter Cumins, who had no involvement or influence over the appointment of Brodie Cumins in the role. Brodie Cumins has worked for Cash Converters in various role since 1998 and his appointment is based on his knowledge and experience in the Cash Converters business.

Other than share-based payments (as disclosed in note 6.5) and shareholdings of Key Management Personnel (KMP) (as disclosed in the remuneration report), the parent, its subsidiaries, associates and KMP made no other related party transactions during the reporting period.

6.4 Key management personnel disclosures

Details of directors and other members of KMP of Cash Converters International Limited during the year are:

- Mr Stuart Grimshaw (Non-Executive Chairman)
- Mr Peter Cumins (Executive Deputy Chairman)
- Ms Ellen Comerford (Non-Executive Director)
- Mr Kevin Dundo (Non-Executive Director)
- Mr Lachlan Given (Non-Executive Director)
- Ms Andrea Waters (Non-Executive Director)
- Mr Mark Reid (Chief Executive Officer)
- Mr Sam Budiselik (Chief Operating Officer, became KMP 3 July 2017)
- Mr Nathan Carbone (Chief Risk Officer)
- Mr Ben Cox (General Manager Corporate Distribution, became KMP 27 May 2018)
- Ms Myrrhine Cutten (Chief Human Resources Officer, became KMP 3 July 2017)
- Mr Brad Edwards (General Counsel and Company Secretary)
- Mr Martyn Jenkins (Chief Financial Officer)
- Ms Alice Manners (Chief Manager Digital and Marketing, ceased to be KMP 31 December 2017)
- Mr Shane Prior (Chief Operating Officer – Stores, resigned 4 July 2018)

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

	2018 \$	2017 \$
Short-term employee benefits	5,421,732	4,584,113
Post-employment benefits	197,321	208,644
Other long-term benefits	11,435	165,520
Share-based payments	252,571	1,315,143
Termination benefits	99,218	600,150
	5,982,277	6,873,570

6.5 Share-based payments

Cash Converters rights plan

The Cash Converters rights plan, which was approved by shareholders on 18 November 2015, allows the directors of the Company to issue performance rights which will vest into ordinary shares in the Company upon the achievement of certain vesting conditions. As at 30 June 2018, the shareholders had approved the issue of 15,920,500 performance rights under the Company's previous rights plan, approved by shareholders on 30 November 2010 and 17,694,134 performance rights under the new rights plan, to the then managing director (now Executive Deputy Chairman) and the Company's senior management team in various tranches with each tranche containing vesting conditions.

Each right entitles the holder to subscribe for one fully paid ordinary share in the Company at the exercise price of nil. During the reporting period, a total of 3,461,288 performance rights were granted in Tranches 21 and 22 to senior executives of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

6.5 Share-based payments (continued)

The following arrangements were in existence during the current reporting period:

Tranche	Grant date	Number of rights	Grant date fair value	Exercise price	Expiry date
12	25 Sep 2014	102,166	\$0.96	\$0.00	1 Jul 2017
13	18 Nov 2015	1,865,000	\$0.23	\$0.00	30 Jun 2018
14	18 Nov 2015	1,865,000	\$0.41	\$0.00	30 Jun 2018
15	28 Jan 2016	1,232,224	\$0.26	\$0.00	30 Jun 2018
16	28 Jan 2016	1,232,224	\$0.45	\$0.00	30 Jun 2018
17	23 Nov 2016	2,286,460	\$0.20	\$0.00	30 Jun 2019
18	23 Nov 2016	2,286,460	\$0.31	\$0.00	30 Jun 2019
19	12 Dec 2016	973,843	\$0.17	\$0.00	30 Jun 2019
20	12 Dec 2016	973,843	\$0.29	\$0.00	30 Jun 2019
21	14 Feb 2018	1,730,644	\$0.22	\$0.00	30 Jun 2020
22	14 Feb 2018	1,730,644	\$0.33	\$0.00	30 Jun 2020

Fair value of performance rights granted during the year

The weighted average fair value of the performance rights granted during the financial year is \$0.28 (2017: \$0.25). Where relevant, the expected life used in the model is based on the earliest vesting date possible for each tranche, based on the vesting conditions.

	Tranche 21	Tranche 22
Grant date	14 Feb 2018	14 Feb 2018
Option pricing model	Monte Carlo	Binomial
Grant date share price	\$0.365	\$0.365
Exercise price	\$0.00	\$0.00
Expected volatility	50%	50%
Option life	2.38 years	2.38 years
Dividend yield	4.00%	4.00%
Risk-free interest rate	1.95%	1.95%

Movement in performance rights during the year

The following table illustrates the number of, and movements in, performance rights during the year. The performance rights were issued at no charge, and the weighted average exercise price is nil. No rights were exercisable at the end of the current year.

	2018 Number	2017 Number
Outstanding at beginning of year	12,755,380	6,758,319
Granted during year	3,461,288	7,598,693
Forfeited / lapsed during year	(6,294,996)	(1,601,632)
Exercised during year	(102,166)	–
Outstanding at end of year	9,819,506	12,755,380

Share options exercised during the year

Tranche	Grant date	Number exercised	Exercise date	Share price at exercise date
Year ended 30 June 2018				
12	25 Sep 2014	102,166	14 Nov 2017	\$0.35
Year ended 30 June 2017				
		—		

Share options forfeited / lapsed during the year

Tranche	Grant date	Number lapsed
Year ended 30 June 2018		
13	18 Nov 2015	1,865,000
14	18 Nov 2015	1,865,000
15	28 Jan 2016	1,232,224
16	28 Jan 2016	1,232,224
19	12 Dec 2016	50,274
20	12 Dec 2016	50,274
		6,294,996
Year ended 30 June 2017		
12	25 Sep 2014	22,000
15	28 Jan 2016	219,852
16	28 Jan 2016	219,852
19	12 Dec 2016	569,964
20	12 Dec 2016	569,964
		1,601,632

Share options outstanding at year end

The total number of options outstanding at 30 June 2018 was 9,819,506 (2017: 12,755,380).

Tranche	Grant date	Number of rights	Grant date fair value	Exercise price	Expiry date
17	23 Nov 2016	2,286,460	\$0.20	\$0.00	30 Jun 2019
18	23 Nov 2016	2,286,460	\$0.31	\$0.00	30 Jun 2019
19	12 Dec 2016	892,649	\$0.17	\$0.00	30 Jun 2019
20	12 Dec 2016	892,649	\$0.29	\$0.00	30 Jun 2019
21	14 Feb 2018	1,730,644	\$0.22	\$0.00	30 Jun 2020
22	14 Feb 2018	1,730,644	\$0.33	\$0.00	30 Jun 2020
		9,819,506			

The weighted average remaining contractual life for the performance rights outstanding at 30 June 2018 was 1.4 years (2017: 1.5 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

6.5 Share-based payments (continued)

Accounting policies

The Group provides benefits to executives of the Group in the form of share-based payment transactions, whereby KMP render services in exchange for options (equity-based transactions). These performance rights are indeterminate rights and confer the right (following valid exercise) to the value of an ordinary Share in the Company at the time, either settled in Shares that may be issued or acquired on-market, or settled in the form of cash, at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of terminations).

The current plan to provide these benefits is the Executive Performance Rights Plan. The cost of the equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using an appropriate valuation methodology.

The cost of equity-based transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the profit or loss is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of the awards that will vest, taking into account such factors as the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where vesting is conditional upon a market condition and awards do not ultimately vest, amounts previously charged to the share-based payment reserve are reversed directly to retained earnings, and not to profit and loss.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of dilutive earnings per share.

6.6 Auditor's remuneration

	2018 \$	2017 \$
<i>Auditor of the parent entity</i>		
Audit / review of the financial report	406,050	402,000
Taxation services	95,249	23,680
Independent expert in relation to Enforceable Undertaking	90,800	276,100
Investigating accountant's report	81,140	–
Other non-audit services	50,000	85,950
<i>Related practice of the parent entity auditor</i>		
Audit	45,557	49,553
Taxation services	26,987	14,110
	<u>795,783</u>	<u>851,393</u>

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

6.7 Events subsequent to the end of the year

On 23 August 2018 the Company announced that Ms Ellen Comerford had submitted her resignation as a Director effective 30 September 2018.

On 27 August 2018 the Company announced that Mr Mark Reid has submitted his resignation as Chief Executive Officer with immediate effect. Chief Operating Officer, Mr Sam Budiselik has been appointed as Interim Chief Executive Officer whilst the Board conduct an executive search for a permanent replacement for Mr Reid.

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

DIRECTORS' DECLARATION

For the year ended 30 June 2018

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- d) the directors have been given the declarations required by s295A of the Corporations Act 2001.

At the date of this declaration the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 5.2 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the directors



Stuart Grimshaw
Director

Perth, Western Australia
27 August 2018

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

27 August 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 audit of the financial statements of Cash Converters International Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cash Converters International Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p>Carrying value of non-current assets</p> <p>As disclosed in Notes 3.5 and 3.6, the carrying value of goodwill and other intangible assets as at 30 June 2018 relating to the personal finance and store operations was \$104.7 million and \$22.6 million respectively.</p> <p>The assessment of the recoverable value of these assets requires significant judgement in respect of assumptions such as discount rates, forecast loan volumes and forecast bad debt levels.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> obtaining an understanding of the key controls management has in place in relation to the estimate of the recoverable amount of the personal finance and store operations; comparing the forecasts used in calculating the recoverable amount to the Board approved business plan; evaluating the forecasts used in calculating the recoverable amount by reference to recent performance of the business and assessing historical forecasting accuracy; in conjunction with our valuation experts we assessed and challenged the assumptions and methodologies used, in particular: <ul style="list-style-type: none"> the discount rate against that of comparable companies; forecast loan volumes for personal loans against recent actual levels and related trending; forecast bad debt levels for personal loans; forecast retail and pawn broking revenue; <p>In relation to the assumptions applied above, where possible we corroborated market related assumptions by reference to external data.</p> <ul style="list-style-type: none"> evaluating management's consideration of the impact of potential legislative changes on future personal loan volumes; sample testing management's models for mathematical accuracy; applying sensitivities to the forecast cash flows including growth in the number of loans and evolution of bad debt rates to reflect uncertainty with respect to the impact of: <ul style="list-style-type: none"> recent performance of CC stores the early stage of growth of the Medium Amount Credit Contracts loan book. assessing the appropriateness of the disclosures in the financial statements.

Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p>Allowance for impairment losses – personal loan receivables</p> <p>As disclosed in Note 3.2, the carrying value of personal loan receivables as at 30 June 2018 was \$113.3 million, net of allowances for impairment losses of \$18.5 million.</p> <p>The assessment of the recoverable value of personal loans requires significant judgement in respect of assumptions such as default rates in making an estimate of the recoverability of loans, on either a specific or collective basis.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> evaluating the key controls management have in place in relation to the estimate of the recoverable value of personal loans; challenging the assumptions and methodology used to determine both the specific and collective allowances; evaluating forecast default rates against historically observed levels; performing a look back test of the loans that were written off in the current financial year by aging category, to build an expectation of the allowance as at 30 June 2018 by comparable aging category; and assessing the appropriateness of the disclosures in the financial statements.
<p>Contingent liabilities</p> <p>As disclosed in Note 6.1, the Company is subject to two class actions in relation to historic lending practices in Queensland associated with personal loans and cash advance loans. These are classified as contingent liabilities in accordance with the relevant accounting standards.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> holding discussions with Group Internal Legal Counsel, Management and the Directors; reviewing minutes of meetings of the board of directors; obtaining copies of pleadings; holding discussions with external legal counsel to gain an understanding of the current status of the class actions; and assessing the appropriateness of the disclosures in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 62 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Cash Converters International Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



David Newman

Partner

Chartered Accountants

Perth, 27 August 2018



