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Collection House Limited ABN 74 010 230 716

ASX half-year report for the period ended 31 December 2021

Lodged with the ASX under listing Rule 4.2A

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Reporting Period: half-year ended 31 December 2021
Previous corresponding period: half-year ended 31 December 2020

Results for announcement to the market

All comparisons to half-year ended 31 December 2020	$'000	Up/down	Percentage change
Revenue from ordinary activities	**26,477**	down	(42.7%)
Loss from continuing activities after tax attributable to members	**(63,703)**	down	(570.3%)
Net loss for the period attributable to members	**(63,703)**	down	(570.3%)
Net loss before tax for the half-year	**(13,217)**	up	4.1%
Loss per share (cents)	**(44.9)**	down	(570.3%)

Dividends

No dividend has been paid or declared for the half-years ended 31 December 2021 and 31 December 2020.

Explanation of results

Refer to accompanying Director's Report and Financial Statements for commentary on the above results.

Net tangible assets

	31 Dec 2021	30 Jun 2021
Net tangible asset backing per ordinary share	**(37.09)**	(28.30)

Directors' Report

for the half-year ended 31 December 2021

The Directors present their report on the consolidated entity (referred to hereafter as the Company or the Group) consisting of Collection House Limited and the entities it controlled for the half-year ended 31 December 2021.

Directors

The following persons were Directors of the Group during the whole of the financial period and up to the date of this report, unless stated otherwise:

- Leigh Berkley - Chairman
- Sandra Birkensleigh
- Catherine McDowell
- Michael Knox (resigned 22 November 2021)

Principal activities and Key Changes

The Group provides debt collection and receivables management services from offices in Australia, New Zealand, and the Philippines, and has two reportable segments: Collection Services and Purchased Debt Ledgers (PDLs). The previous corresponding period includes a significant profit contribution from the Company's PDL segment. In line with actions arising from a strategic review which commenced in November 2019, the majority of the Company's PDLs were disposed in December 2020, the proceeds of which were applied in debt reduction.

During the six months to 31 December 2021, the transformation of the Company's operating model and capital structure continued, amidst difficult trading conditions. Notwithstanding, the Company pursued a range of initiatives which will see it better positioned to deliver on its customer focussed service strategy. Of particular importance, is the significant recapitalisation transaction ("Recapitalisation") which was entered into after half-year end and described in more detail below. When completed, that Recapitalisation will accelerate achievement of the above strategic objectives and provide a stable capital structure for the Company moving forward.

A challenging operating period

The Company's operating performance for the period was disappointing, with little improvement from the previous six-month period. General levels of activity in the receivables management sector over the last six months remained depressed, as clients continued to implement conservative customer engagement strategies in response to the longer than anticipated COVID-19 impacts, with revenue remaining significantly lower than pre-COVID levels.

Key aspects of Company's performance over the period are:

- Before tax loss consistent with previous six-month trading performance, with an expectation of improved performance as COVID-19 collection restrictions are relaxed;
- A material one-off, non-recurring, deferred tax adjustment reflecting a more conservative position adopted in respect of the accounting for the Company's substantial carried forward tax loss position;
- Further cost control initiatives implemented during the period, and a recognition that further action is required to accelerate return to profitability; and
- Short term net asset position improved upon completion of the Recapitalisation and the Company being substantially debt-free.

The Company is cautiously optimistic of customer referral volumes gradually returning to pre-COVID activity levels over the coming months. The Company will also benefit from activity commencing on new client service arrangements secured over the last six months, which are anticipated to generate referral volumes over coming months.

The Company evaluated and bid on a number of debt purchasing opportunities during the period, but prices, particularly in Australia have remained at prohibitively high levels. Until more sustainable market conditions return to the purchased debt market, the Company will continue to evaluate opportunities and proceed cautiously. The Company continues to pursue a co-investment approach to purchased debt assets, which will see it invest a substantially lower level of the Group's capital and generate a higher return on equity.

The Group's $13.2 million loss before tax for the six months to 31 December 2021 is consistent with the Company's performance in the previous six months and reflective of little improvement in general market conditions. CLH is confident that with a return to pre-COVID-19 customer referral volumes and further reduction to fixed overhead costs, the Company can return to sustainable profitability. That half-year loss is exacerbated by a one-off, non-cash charge to income tax expense of $49.7 million, arising from the decision to derecognise the Group's carried forward tax losses.

In light of continued difficult trading conditions and a slower COVID-19 recovery timeline than originally anticipated, accounting rules required the Company to reassess the level of tax losses carried forward as deferred tax assets on the Company's balance sheet. This more conservative commercial outlook has required these deferred tax assets to be derecognised in the half-year results, with the associated charge taken through current period income tax expense ($49.7 million) and other comprehensive income ($1.5 million). Although derecognised as a tax asset, the Company retains access to carried forward tax losses of $58.3 million and remains confident that the losses will be used to shelter taxable income over coming financial periods.

Outlook

As announced on 23 February 2022, the Company has entered into a series of transactions which will provide it with additional working capital and when completed results in the Company being substantially debt-free.

CLH has retained its best-in-class capabilities of people, systems, and processes, allowing it to provide end-to-end receivables management services to clients and customers under either contingent collections or purchased debt frameworks. The Company has simultaneously reduced its overhead cost structure and embraced a more agile approach that is expected to create significantly improved productivity and a return to profitability over the coming months.

The Directors are conscious that urgent revenue improvement and tight cost control remain of paramount importance. Employment and overhead costs had already been substantially reduced when compared with the prior period but are subject to ongoing review. Further adjustments to the Company’s direct cost structure will be required in conjunction with ongoing business development and revenue improvement initiatives over the coming six-month period. Given the longer than anticipated impacts from COVID-19, further cost reduction initiatives are also being implemented over the next few months, in the areas of technology, occupancy and corporate costs. The Company continues to carefully manage its working capital and liquidity while the short-term operating outlook remains challenging.

Despite these continuing constrained trading conditions, client relationships remain strong, and the Company is advanced in securing a number of significant new client opportunities which will result in an improvement in underlying revenue as market conditions stabilise. The market has responded positively to the Company’s transformation initiatives and customer experience focus, and it is experiencing a high level of client engagement as we explore how we can serve our clients and customers better

The Directors recognise and appreciate the ongoing commitment and contribution of management, staff, and the Company’s advisors toward achievement of Collection House’s revised purpose and strategy.

Key Risks

Key risks to the Company’s outlook and strategy are:

- Continuing sustained impacts of COVID-19 on general growth in the credit sector and limitations on efficiently conducting customer engagement to drive collection activity.
- Changes to regulations governing collection activities or breaching compliance obligations.
- Failure to retain existing or acquire new Collection Services clients.
- Due to current market conditions, inadequate supply of purchased debt at acceptable prices to create a sustainable PDL pipeline.
- Disruption to systems and operation due to cyber-attack or privacy breaches.
- Failure to maintain appropriate level of investment in information systems to improve customer experience; and
- Failure to attract and retain talent in a challenging and changing market.

The Audit and Risk Management Committee provides Board oversight to the management of risk mitigation strategies that are implemented for the Group.

Overview of Group operations and financial results

	31 Dec 2021 $’000	31 Dec 2020 $’000	Percentage change
Revenue	**26,477**	46,227	**(42.7)**
Net Loss after tax for the half-year	**(63,703)**	(9,503)	**(570.3)**
Underlying net loss before tax for the half-year	**(12,228)**	(2,246)	**(444.4)**
Loss per share	**(44.9)**	(6.7)	**(570.3)**

Key elements of the result were:

- Total revenue $26.5 million was down on the previous period reflecting the reduced contribution from Australian purchased debt ledger assets which were disposed of in December 2020. In the half to 31 December 2020, those assets contributed revenue of $13.5 million.
- An underlying net loss before tax of $12.2 million (31 Dec 2020: NLBT of $2.2 million) reflecting continued challenging trading conditions in the collection services segment.
- Consolidated Net Loss after Tax (NLAT) of $63.7 million (31 Dec 2020: NLAT of $9.5 million).
- A reassessment of the Group’s recognised deferred tax asset position with a charge of $49.7 million brought to account through tax expense and $1.5 million through other comprehensive income
- Loss per share of 44.9 cents (31 Dec 2020: Loss per share 6.7 cents).
- Closing gross assets of $69.7 million (30 Jun 2021: $145.9 million) and net liabilities of $25.4 million (31 Jun 2021: $39.7 million).

The Group is reporting a Net Loss after tax of $63.7 million for the half-year ended 31 December 2021 with the underlying operating loss for the half-year being $12.2 million. The Net Loss Before Tax ($13.2m) is adjusted for Right-of-use impairment ($0.9m) and restructuring expenses ($0.1m) to arrive at the underlying loss.

Collection Services revenue was down $6.7 million (-23%) on the previous corresponding period largely in line with reduced referral volumes arising from the sustained COVID-19 pandemic. Importantly, the Group expects natural improvements to the Collection Services revenue as restrictions ease and client referral levels return to more stable levels. Revenue from the Group's investment in PDL assets (predominately New Zealand based) was in line with expectations.

As at 31 December 2021, net cash on hand was $1.9 million (30 Jun 2021: $7.3 million) with total senior debt of $54.8 million (30 Jun 2021: $51.1 million). After half-year end, and described more comprehensively below, the Company entered into a series of transactions which will see it become debt free by 30 June 2022.

As a consequence of the sale of the majority of the Group's purchased debt assets in December 2020 and subsequent operating losses, the Group has net tax losses of $58.3 million (30 Jun 2021: $65.8 million). In line with the requirements of applicable accounting standards which impose a much more conservative outlook for the recognition of forecast profitability, the Directors have re-evaluated the portion of those losses which meet the criteria for ongoing recognition as a deferred tax asset given the longer than expected impact of COVID-19 and the continued difficult trading conditions. As a result, deferred tax assets of $51.2 million have been derecognised during the period. Notwithstanding, the Company continues to have access to $58.3 million of tax losses available to offset the Group's future taxable income.

Largely as a result of the above deferred tax asset derecognition, the Group has net liabilities of $25.4 million (30 Jun 2020: net assets of $39.7 million), as well as a current ratio of 0.6 (30 Jun 2021: 1.1) and a net gearing ratio of 186% (30 Jun 2021: 61%). The above metrics are materially altered by the subsequent transaction described more comprehensively below – see table below which on a proforma basis reflects the 31 December 2021 balances as notionally adjusted by the subsequent transaction.

	Selected 31 December 2021 items proforma adjusted for Subsequent Transaction	
	31 Dec 2021 Adjusted $'000	**31 Dec 2021 Reported $'000**
Cash	**11,400**	1,924
PDL Assets	**173**	11,585
Borrowings	**6,000**	54,849
Net Assets/(Liabilities)	**23.9**	(25.4)

Key financial results – by segment – Reviewed

	Collection Services		Purchased Debt Ledgers		Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	31 Dec 2020 $'000
Revenue						
Sales	**22,495**	29,164	**-**	-	**22,495**	29,164
Interest and other income	**-**	-	**3,986**	17,074	**3,986**	17,074
Total segment revenue	**22,495**	29,164	**3,986**	17,074	**26,481**	46,238
Intersegment elimination	**-**	-	**-**	-	**(4)**	(11)
Consolidated revenue	**22,495**	29,164	**3,986**	17,074	**26,477**	46,227
Results						
Segment result	**(6,714)**	4,477	**(555)**	1,116	**(7,269)**	5,593
Unallocated revenue less unallocated expenses					**(2,716)**	(3,728)
Restructuring expenses					**(139)**	(7,985)
Non-recurring one-off costs					**-**	(3,502)
Impairment of Right of Use					**(850)**	-
Interest expense and borrowing costs					**(2,243)**	(4,111)
Profit before tax					**(13,217)**	(13,733)
Income tax (expense)/benefit					**(50,486)**	4,230
Net Loss After Tax (NLAT)					**(63,703)**	(9,503)

Collection Services Segment

The Collection Services business collects debt and provides customer service and hardship assistance on behalf of clients (banks, public utilities, government agencies, etc.). The fees received for these services were $22.5 million for the half-year (31 Dec 2020: $29.2 million). The Company's clients continued to take a conservative approach to collection activity due to the ongoing impacts of COVID-19 on their customers and provided extensive support to those customers who applied for hardship assistance. Collection embargoes have extended significantly beyond initial expectations due to the onset of Omicron with embargoes ongoing during the period and some still in place since 31 December 2021.

Purchased Debt Ledger (PDL) Segment

The Group manages a portfolio of profitable PDL assets in New Zealand along with some a minor portfolio of Australian accounts. The purchased debt ledger segment reported segment revenue of $4.0 million (31 Dec 2020: $17.1 million) reflecting normal trading performance for the first half, following the sale of Australia PDL assets in December 2020. The Group renewed a New Zealand forward flow purchase arrangement in December 2021, securing purchases for a further three years. Note that the New Zealand PDL portfolio as at 31 December 2021 has been sold as a part of the transaction outlined in the subsequent event note below. The related forward flow agreement has been retained.

As noted above, the Company evaluated and bid on several purchase debt opportunities during the period, but prices, particularly in Australia have remained prohibitive. The Company continues to pursue a capital light co-investment approach to purchased debt assets

Cost Structure

Direct collection costs decreased on the previous corresponding period, reflective of both strategy changes implemented in FY20 and, also generally lower levels of collection activity period on period. After removing the Job Keeper subsidy ($7.0 million) from prior year Employee costs, current year Employee costs were lower. In addition, the Company has proactively reduced resourcing levels across the entire business.

Total employee numbers (Full Time Equivalents - FTE) across Australia, New Zealand and the Philippines at 31 Dec 2021 stood at 652 compared to 740 as at 31 Dec 2020.

Capital Management

After 31 December 2021, the Company has completed the transaction outlined in notes 8 and 16 below – this has resulted in approximately $9 million of working capital (largely from the sale of the New Zealand PDL assets) being contributed to the business and upon successful completion, elimination of $49.3 Million of the Company's senior debt. As a result of this, the Company now has a stable capital structure which provides a strong platform upon which it can grow its collection services capability over the coming years and implement a PDL co-investment partnership.

Earnings per Share and Dividends

Basic Loss per share for the half-year was (44.9) cents (31 Dec 2020: (6.7) cents).

Because of the economic performance for the period, no dividends were paid or declared during the period or subsequent to period end (31 Dec 2020: nil).

The Group's ability to recommence an appropriate dividend payment policy is governed by its lender arrangements which is primarily linked to its ongoing financial performance and available cash after meeting its loan obligations. The Company is committed to recommencing the payment of dividends as soon as possible.

Matters subsequent to the end of the reporting period

Subsequent to 31 December 2021, the Company entered into a series of transactions ("the Recapitalisation") which, when completed, will result in the Company being substantially debt-free and with sufficient cash reserves to continue execution of its previously described operating strategy. The Recapitalisation provides the Company with sufficient capital to return the business to profitability, in line with the business turnaround initiatives set out below, and in conjunction with an expectation of improving trading conditions in the debt collection sector.

The Recapitalisation comprises a number of interrelated transactions:

- the Company has entered into a binding agreement to sell its New Zealand purchased debt ledgers (the "NZ PDL Transaction") to Credit Corp Group Limited ("CreditCorp") for a total purchase price of NZD $13.0 million (approximately A$12 million). The transaction is subject to customary closing conditions and adjustments and is expected to complete by the end of March 2022;
- CreditCorp has agreed to provide the Company with a short-term working capital facility repayable upon the earlier of completion of the NZ PDL Transaction and 30 June 2022;
- CreditCorp has also simultaneously agreed to acquire substantially all of the Company's outstanding senior debt - approximately A$52 million (as at 23 Feb 2022) from the Company's existing lenders, and has agreed to a standstill on the repayment of the Acquired senior debt; and
- Upon completion, the proceeds of the NZ PDL Transaction will be applied to repay the working capital facility in full, and in part repayment of the Senior Debt. CreditCorp will then release the Company from the remaining balance of the Acquired Senior Debt.

Following the completion of the Recapitalisation, CLH will have approximately $9.0 million of cash reserves. The Company's only remaining senior debt will be a A$6.0m facility secured on a limited-recourse basis against the Company's investment in Volt Bank Limited. CLH is actively exploring opportunities to realise this investment and expects to repay this remaining facility in full in the near future.

The debt forgiveness will have an estimated net improvement after tax to assets of $49.3 million which if applied to the Dec 2021 net assets on a pro-forma basis would improve this from -$25.4 million to +$23.9 million. This will provide the Company with a stronger balance sheet to enable it to continue to pursue its organisational vision of serving its customers and clients better and creating more sustainable outcomes for all stakeholders.

Other than the matters discussed herein, there are no other matters or circumstances that have arisen since 31 December 2021 up until the date of this report that have significantly affected, or may significantly affect:

(a) the Group's operations in future financial years,
(b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Proceedings on behalf of the company

On 15 March 2019, the Group was provided with a copy of a claim and statement of claim, which had been filed in the Supreme Court of Queensland on the same date. While the claim for damages was for $2,800,000, it was settled during the period, and the Group advised, by way of separate ASX announcement, that the litigation commenced against it has been settled on terms that are satisfactory to both parties.

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

Directors' Report

for the half-year ended 31 December 2021

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Corporations' Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Collection House Limited

Leigh Berkley
Chairman

Brisbane
28 February 2022

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Collection House Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Collection House Limited for the half-year ended 31 December 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Ben Flaherty
Partner

Income Statement

for the half-year ended 31 December 2021

	Notes	Consolidated 31 Dec 2021 $'000	Consolidated Restated[1] 31 Dec 2020 $'000
Commission		**21,439**	28,877
Interest Income		**3,658**	16,567
Other revenue	4	**1,380**	783
Revenue from continuing operations		**26,477**	46,227
Direct collection costs		**(3,110)**	(8,638)
Employee expenses		**(24,243)**	(25,514)
Impairment – Property, plant and equipment	10	**(850)**	-
Depreciation and amortisation expense		**(3,588)**	(4,785)
Rental and Lease expenses		**(298)**	(386)
Restructuring expenses		**(139)**	(7,985)
Other expenses		**(5,223)**	(8,541)
Finance costs		**(2,243)**	(4,111)
Loss before income tax		**(13,217)**	(13,733)
Income tax (expense)/benefit	5	**(50,486)**	4,230
Loss from continuing operations for the half-year		**(63,703)**	(9,503)
Loss for the half-year attributable to equity holders of Collection House Limited		**(63,703)**	(9,503)
Loss per share for profit attributable to the equity holders of the Company:			
Basic loss per share (cents)	15	**(44.9)**	(6.7)
Diluted loss per share (cents)	15	**(44.9)**	(6.7)

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

Statement of Comprehensive Income

for the half-year ended 31 December 2021

	Notes	Consolidated 31 Dec 2021 $'000	Restated[1] 31 Dec 2020 $'000
Loss for the half-year		**(63,703)**	(9,503)
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**160**	(252)
Items that will not be reclassified to profit or loss			
Fair Value adjustment – Equity investment		**-**	(1,352)
Income tax relating to derecognition of deferred tax asset		**(1,495)**	-
Other comprehensive income for the half-year, net of income tax		**(1,335)**	(1,604)
Total comprehensive income for the half-year attributable to equity holders of Collection House Limited		**(65,038)**	(11,107)

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

Balance Sheet

as at 31 December 2021

		Consolidated	
	Notes	31 Dec 2021 $'000	Restated[1] 30 Jun 2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**1,924**	7,288
Receivables		**8,541**	10,134
Purchased debt ledgers	6	**2,153**	2,920
Current tax asset		**112**	12,487
Other assets		**1,675**	1,667
Total current assets		**14,405**	34,496
Non-current assets			
Purchased debt ledgers	6	**9,432**	9,961
Equity investments		**3,516**	3,516
Property, plant and equipment		**14,675**	17,580
Intangible assets	7	**27,288**	27,960
Deferred tax assets	9	**-**	51,889
Receivables		**352**	546
Total non-current assets		**55,263**	111,452
Total assets		**69,668**	145,948
LIABILITIES			
Current liabilities			
Payables		**7,589**	9,059
Borrowings	8	**5,088**	11,733
Provisions		**4,107**	4,373
Other financial liabilities		**7,507**	7,379
Total current liabilities		**24,291**	32,544
Non-current liabilities			
Borrowings	8	**49,761**	49,419
Provisions		**226**	195
Other financial liabilities		**20,748**	24,110
Total non-current liabilities		**70,735**	73,724
Total liabilities		**95,026**	106,268
Net (liabilities)/assets		**(25,358)**	39,680
EQUITY			
Contributed equity	11	**119,795**	119,689
Reserves		**(7,060)**	(5,619)
Retained earnings/(Accumulated losses)		**(138,093)**	(74,390)
Total equity		**(25,358)**	39,680

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

Statement of Changes in Equity

for the half-year ended 31 December 2021

		Attributable to owners of Collection House Limited			
Consolidated	**Notes**	**Contributed equity $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2020 (restated[1])		**119,567**	**(4,179)**	**(42,493)**	**72,895**
Loss for the half-year (restated[1])		-	-	(9,503)	**(9,503)**
Other comprehensive income		-	(1,604)	-	**(1,604)**
Total comprehensive income for the half-year (restated[1])		-	(1,604)	(9,503)	**(11,107)**
Transactions with owners in their capacity as owners:					
Withdrawal of treasury shares		-	-	-	**-**
		-	-	-	**-**
Balance at 31 December 2020 (restated[1])		**119,567**	**(5,783)**	**(51,996)**	**61,788**
Balance at 1 July 2021 (restated[1])		**119,689**	**(5,619)**	**(74,390)**	**39,680**
Loss for the half-year		-	-	(63,703)	**(63,703)**
Other comprehensive income		-	(1,335)	-	**(1,335)**
Total comprehensive income for the half-year		-	(1,335)	(63,703)	**(65,038)**
Transactions with owners in their capacity as owners:					
Withdrawal of treasury shares		106	(106)	-	**-**
		106	(106)	-	**-**
Balance at 31 December 2021		**119,795**	**(7,060)**	**(138,093)**	**(25,358)**

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

Statement of Cash Flows

for the half-year ended 31 December 2021

	Notes	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Cash flows from operating activities			
Receipts from customers and debtors (inclusive of GST)		**32,596**	65,316
Payments to suppliers and employees (inclusive of GST)		**(36,948)**	(43,982)
Income taxes refunded/(paid)		**12,335**	(1,732)
Net cash inflow from operating activities		**7,983**	19,602
Cash flows from investing activities			
Payments for property, plant and equipment		**(96)**	(4)
Payments for purchased debt ledgers		**(811)**	(5,422)
Receipts from sale of purchase debt ledgers		**-**	157,698
Payments for intangible assets		**(710)**	(232)
Net cash (outflow)/inflow from investing activities		**(1,617)**	152,040
Cash flows from financing activities			
Proceeds from borrowings		**3,829**	15,000
Repayment of borrowings		**(11,558)**	(153,891)
Payment of lease liabilities		**(3,006)**	(4,094)
Borrowing costs		**(4)**	(108)
Interest paid		**(1,042)**	(3,064)
Payment for cash-based security deposit		**-**	(1,187)
Net cash outflow from financing activities		**(11,781)**	(147,344)
Net (decrease)/increase in cash and cash equivalents		**(5,415)**	24,298
Cash and cash equivalents at the beginning of the financial year		**7,288**	9,656
Effects of exchange rate changes on cash and cash equivalents		**51**	-
Cash and cash equivalents at end of the half-year		**1,924**	33,954
Cash at bank and on hand		**1,924**	33,954
Cash and cash equivalent at end of the half-year		**1,924**	33,954

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

Notes to the Financial Statements

for the half-year ended 31 December 2021

1. Basis of preparation of half-year report

These financial statements are for the consolidated entity consisting of Collection House Limited (the Company) and its subsidiaries (the Group). Collection House Limited is a public company incorporated and domiciled in Australia.

These interim financial statements were authorised for issue on 28 February 2022 by the Directors of the Company.

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2021 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2021.

The Company is of a kind referred to in *ASIC Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the interim financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The accounting policies adopted in this interim financial report are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The IFRS Interpretations Committee (IFRIC) has issued two final agenda decisions on cloud computing arrangements:

- *Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud (IAS 38 Intangible Assets)* (March 2019): this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- *Configuration of Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)* (April 2019): this decision considers whether configuration or customisation costs incurred in relation to software-as-a-service (SaaS) arrangements can be recognised as an intangible asset and if not, the time period in which such costs are recognised in the income statement.

The Group's accounting policy has historically been to capitalise such costs as intangible assets in the balance sheet. SaaS arrangements are considered service contracts which provide the Group with the right to access the provider's software over the contract period. Configuration or customisation costs in relation to such SaaS arrangements, as well as on-going licence fees are expensed in the income statement when the services are received.

This change in accounting policy has been applied retrospectively resulting in a change to retained earnings as at 1 July 2020. The impact of the adoption is outlined below:

Income Statement (extract)

	Consolidated		
	As previously stated 31 Dec 2020 $'000	**Increase/ (Decrease) $'000**	**Restated 31 Dec 2020 $'000**
Depreciation and amortisation expense	(4,832)	47	**(4,785)**
Loss before income tax	(13,780)	47	**(13,733)**
Loss from continuing operations for the half-year	(9,550)	47	**(9,503)**
Loss for the half-year attributable to equity holders of Collection House Limited	(9,550)	47	**(9,503)**
Loss per share for profit attributable to the equity holders of the Company:			
Basic loss per share (cents)	(6.8)	0.1	**(6.7)**
Diluted loss per share (cents)	(6.8)	0.1	**(6.7)**

Statement of Comprehensive Income (extract)

	Consolidated		
	As previously stated 31 Dec 2020 $'000	Increase/ (Decrease) $'000	Restated 31 Dec 2020 $'000
Loss for the half-year	(9,550)	47	**(9,503)**
Total comprehensive income for the half-year attributable to equity holders of Collection House Limited	(11,154)	47	**(11,107)**

Balance Sheet (extract)

	Consolidated					
	As previously stated 30 Jun 2021 $'000	Increase/ (Decrease) $'000	Restated 30 Jun 2021 $'000	As previously stated 1 Jul 2020 $'000	Increase/ (Decrease) $'000	Restated 1 Jul 2020 $'000
Intangible assets	28,091	(131)	**27,960**	33,011	(224)	**32,787**
Total non-current assets	111,583	(131)	**111,452**	142,835	(224)	**142,611**
Total assets	146,079	(131)	**145,948**	343,948	(224)	**343,724**
Net assets	39,811	(131)	**39,680**	73,119	(224)	**72,895**
EQUITY						
Retained profits/(Accumulated losses)	(74,259)	(131)	**(74,390)**	(42,269)	(224)	**(42,493)**
Total equity	39,811	(131)	**39,680**	73,119	(224)	**72,895**

(b) Going Concern

The interim financial report has been prepared on a going concern basis as the Directors believe the Group will be able to pay its debts as and when they fall due and payable.

The Group's current liabilities exceeded its current assets at 31 December 2021 by $9,886,000 (30 Jun 2021: current assets exceeded current liabilities of $1,952,000), and its total liabilities exceeded its total assets by $25,358,000 (30 Jun 2021: assets exceeded liabilities by $39,680,000).

The Directors note that a series of interrelated transactions ('the recapitalisation transactions') were entered into on 22 February 2022. Essentially:

- the Group has entered into an agreement to sell its NZ PDL assets to Credit Corp Limited (CCP) for a total purchase price of NZD $13,000,000 (approximately A$12 million). The transaction is subject to customary closing conditions and adjustments and is expected to complete by the end of March 2022. The Company is progressing well in obtaining the requisite percentage of approvals from the underlying PDL originators for the sale to CCP, being the key condition and uncertainty to closing. The contractual arrangement allows until 30 June 2022 for all conditions precedent to be satisfied;
- CCP has agreed to provide the Group with a working capital facility of $5,000,000 (fully drawn down as at the date of this report). This facility is repayable upon the earlier of completion of the NZ PDL Transaction and 30 June 2022
- CCP has acquired the Group's Senior Debt facilities of $51,849,000 as at 22 February 2022 (excluding a $6,000,000 portion secured against the Volt Bank Limited) from the Group's existing lenders;
- CCP and the Group have entered into a standstill agreement (providing amongst other things a waiver for covenants, mandatory principal repayments and interest payments); and
- upon completion, the proceeds of the NZ PDL Transaction will be applied to repay the working capital facility in full, and in part repayment of the Senior Debt. CCP will then release the Company from the remaining balance of the Acquired Senior Debt (expected 31 March 2022), of $51,849,000. The resultant debt forgiveness will be recorded in the Company's full year results, upon closing.

Following the completion of the recapitalisation transaction, CLH forecast the Group will have approximately $9 million of cash reserves. The Company's only remaining senior debt will be a A$6,000,000 facility secured on a limited-recourse basis against the Company's investment in Volt Bank Limited. CLH is actively exploring opportunities to realise this investment and expects to settle this remaining facility in full in the near future. Thereafter, the net asset position of the Group will be significantly improved with substantially all of its borrowings as at reporting date expected to be extinguished. If the transaction is applied notionally against the 31 December 2021 balances, The Net Asset balances would adjust by a net adjustment of approximately $49,349,000 from a net deficiency of $25,358,000 to net assets of $23,991,000.

The Group's ability to continue as a going concern is critically dependent on completion of the recapitalisation transaction along with implementing its strategic plan and meeting its targets thereafter. The Directors believe that the Group will be able to continue as a going concern based on cash flow forecasts which indicate the Group is able to pay its debts as and when they fall due under a range of risk adjusted scenarios. Key assumptions used in these cash flow forecasts and the assessment of the Group's ability to continue as a going concern include:

- enhancing and growing the Collection Services activities of the Group's business and continued retention of key clients. The Group continues to engage with its clients to develop new business opportunities to expand its services provided both in contingent collections and receivable managements services. The Group is also participating in a number of active tenders to provide services to new clients including government agencies, utilities, and others.
- continuance of NZ PDL collections activities related to a recently rolled over three year forward flow agreement. Outside of the CCP transaction, the Group has retained and renewed its forward flow agreements with key NZ clients. This will see the Group acquire approximately $7,120,000 of PDL assets over a 3-year period. The performance of this PDL portfolio is dependent upon the quality of debt acquired and liquidation strategies deployed by the Group.
- progressive build-up of its PDL book under management with future PDL partners. The Company evaluated and bid on a number of debt purchasing opportunities during the period, but prices, particularly in Australia have remained at prohibitively high levels. Until more sustainable market conditions return to the purchased debt market, the Company will continue to evaluate opportunities and proceed cautiously. The Company's intent is to pursue a co-investment approach to purchased debt assets, which will see it invest a substantially lower level of the Group's capital and generate a higher return on equity;
- managing/lowering costs to a sustainable level to meet the existing environment; and
- managing any ongoing impact from economic uncertainty as a result of COVID-19.

While the Directors are encouraged that the performance of the Group's continuing operations is improving from experience during the half-year, the improving but still existing macro-economic challenges and prolonged uncertainties from COVID-19 may impact on the Group's ability to execute its strategic plan and achieve the key assumptions outlined above. As a result, the uncertainties outlined herein give rise to a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business at the stated amounts in the financial statements.

2. Critical accounting estimates and judgements

In preparing this interim financial report management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

The Group has been impacted by both the societal and economic prolonged impact of the COVID-19 virus. The longer-term impact of the COVID-19 pandemic on the Australian economy and the Group remains uncertain. The severity of its impact will depend on its duration, customer behaviour, the success of the Government stimulus initiatives, and the general Australian economic recovery. Thus, COVID-19 requires focussed considerations and estimations, which has an impact on the valuation of the Group's assets and liabilities.

The Group has considered the impact of COVID-19 on its forecasts further and particularly in relation to the recognition of deferred tax assets. While it was comfortable with the position as at June 2021 with its views at the time on economic recovery, success of vaccination programs, and views of its Clients, the Government and the market at the time, the prolonged impact of COVID-19 (including the Delta and Omicron variants) has caused the Company to review its basis of forecast to meet the "convincing evidence" requirements. This has led to the revised treatment explained above and in notes 5 and 9.

Other than above, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended 30 June 2021.

Notes to the Financial Statements

for the half-year ended 31 December 2021

3. Segment information

(a) Description of segments

Individual business segments are identified on the basis of grouping individual products or services subject to similar risks and returns. The business segments reported are Collection Services and Purchased Debt Ledgers. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and determining the allocation of resources.

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

Collection Services

The earning of commissions on the collection of debts for clients.

Purchased Debt Ledgers

The collection of debts from client ledgers acquired by the Group.

All other segments

All other segments include unallocated revenue and expenses, intersegment eliminations, interest, borrowings, and income tax expenses.

(b) Segment information provided to the Chief Executive Officer and Board of Directors

31 Dec 2021	Collection services $'000	Purchased debt ledgers $'000	All other segments $'000	Consolidated $'000
Segment revenue				
Sales	**22,495**	**-**	**-**	**22,495**
Intersegment sales	**-**	**-**	**(4)**	**(4)**
Total sales revenue	**22,495**	**-**	**(4)**	**22,491**
Interest and other income	**-**	**3,986**	**-**	**3,986**
Total segment revenue	**22,495**	**3,986**	**(4)**	**26,477**
Segment result				
Segment result	**(6,714)**	**(555)**	**(2,716)**	**(9,985)**
Restructuring expenses	**-**	**-**	**(139)**	**(139)**
Impairment expense: Property, plant and equipment	**-**	**-**	**(850)**	**(850)**
Interest expense and borrowing costs	**-**	**-**	**(2,243)**	**(2,243)**
Loss before income tax				**(13,217)**
Income tax expense				**(50,486)**
Loss for the half-year				**(63,703)**
Segment assets and liabilities				
Segment assets	**54,778**	**12,659**	**2,231**	**69,668**
Segment liabilities	**39,506**	**56,677**	**(1,157)**	**95,026**

Notes to the Financial Statements

for the half-year ended 31 December 2021

3. Segment information (continued)

(b) Segment information provided to the Board of Directors (continued)

31 Dec 2020 (Restated[1])	Collection services $'000	Purchased debt ledgers $'000	All other segments $'000	Consolidated $'000
Segment revenue				
Sales[2]	29,164	-	-	**29,164**
Intersegment sales[2]	-	-	(11)	**(11)**
Total sales revenue	29,164	-	(11)	**29,153**
Interest and other income[2]	-	17,074	-	**17,074**
Total segment revenue	29,164	17,074	(11)	**46,227**
Segment result				
Segment result[2]	4,477	1,116	(3,728)	**1,865**
Restructuring expense[2]	-	-	(7,985)	**(7,985)**
Non-recurring one-off costs[2]	-	-	(3,502)	**(3,502)**
Interest expense and borrowing costs	-	-	(4,111)	**(4,111)**
Loss before income tax				**(13,733)**
Income tax expense				**4,230**
Loss for the half-year				**(9,503)**
Segment assets and liabilities				
Segment assets	117,419	75,969	2,567	**195,955**
Segment liabilities	89,297	45,775	(905)	**134,167**

(1) See note 1(a) for details about restatements for changes in accounting policies.
(2) Comparative figures have been restated, to ensure comparability with the current reporting period and annual financial statements, based on separate itemisation of restructuring expenses and non-recurring one-off costs.

4. Revenue

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Government subsidies	**974**	148
Sublease income	**48**	342
Gain on disposal of Purchase Debt Ledgers	**-**	238
Other	**358**	55
Other Revenue from continuing operations	**1,380**	783

5. Income tax expense

As at 30 June 2021 the Group had net deferred tax assets of $51,889,000; of which unused tax losses comprised $44,022,000.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which they can be utilised. Australian Accounting Standards (AASB 112) require a more stringent “convincing evidence” test be applied in determining the probability of recovery of a deferred tax asset arising from tax losses. In assessing whether “convincing evidence” exists at the balance date, a range of factors have to be evaluated including current and forecast operating performance, relevant business risks including the ongoing impact of COVID-19 and the potential for further disruption to the Group’s anticipated recovery and plans for future growth in new markets and the causes of past losses.

The impact on the Group’s financial performance and operations as a result of the emergence of new COVID-19 variants during the period, has caused it to review its basis of forecast to meet the “convincing evidence” requirements. The Group observed during the period that as COVID-19 restrictions continued with the Omicron variant, debt recovery practices continued as a necessary focus for regulators and clients. This resulted in collection embargoes being extended significantly beyond expectations and dislocation in the purchase debt ledger market with prices, particularly in Australia have remained at prohibitively high levels high. As a result, increased weighting has been applied to reflect the uncertainty that government and client responses to COVID-19 will continue to impact the debt recovery practices of the Group.

Whilst the Group is already seeing the gradual recovery from COVID-19 pandemic (via its clients, Government, and market indicators), the Directors have determined that given the Group’s recent history of losses, increased forecasting uncertainty from COVID-19, and the particularly stronger “convincing evidence” related requirements, a prudent approach has been applied and prior year deferred tax assets of $51,172,000 as at 31 December 2021 have been derecognised.

It should be noted that:

- unused tax losses do not expire in Australia or New Zealand, and remain available to be carried forward and used to offset future taxable income; and
- despite the application of the more stringent “convincing evidence” criteria, the Group believes it will generate profits in the future to be able to utilise these tax losses.

The derecognition of income tax losses has been recognised in accordance with the Australian Accounting Standards.

	Consolidated	
	31 Dec 2021 $’000	Restated[1] 31 Dec 2020 $’000
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	**(13,217)**	(13,733)
Tax at the Australian tax rate of 30% (2020: 30%)	**(3,965)**	(4,120)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	**(35)**	-
Non-deductible expenses	**9**	(70)
Effect of tax rates in foreign jurisdictions	**45**	-
	(3,946)	(4,190)
Adjustments for current tax of prior periods	**262**	(40)
Australian deferred tax assets derecognised from prior years	**48,809**	-
Australian deferred tax assets not brought to account for the half-year	**3,837**	-
New Zealand deferred tax assets derecognised from prior years	**868**	-
New Zealand deferred tax assets not brought to account for the half-year	**644**	-
Philippines deferred tax assets not brought to account for the half-year	**12**	-
	54,432	(40)
Income tax expense/(benefit)	**50,486**	(4,230)

(1) See note 1(a) for details about restatements for changes in accounting policies.

Refer to note 9 for further details of deferred tax balances.

6. Purchased debt ledgers

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current	**2,153**	2,920
Non-current	**9,432**	9,961
	11,585	12,881

	31 Dec 2021 $'000	31 Dec 2020 $'000
At beginning of the period	**12,881**	184,728
Additions	**811**	4,665
Gross PDL Collections	**(5,936)**	(26,016)
Call option buybacks	**-**	805
Interest income	**3,658**	16,567
Impairment	**-**	(5,278)
Gain on disposal of PDLs	**-**	238
Exchange differences	**171**	-
Disposal of PDLs	**-**	(157,698)
At end of the period	**11,585**	18,011

PDLs are considered as purchased or originated credit impaired ("POCI") assets and are measured at amortised cost using the effective interest rate method in accordance with AASB 9: *Financial Instruments*.

The credit-adjusted effective interest rate is the implicit interest rate based on forecast collections determined in the period of acquisition of an individual PDL and equates to the Internal Rate of Return (IRR) of the forecast cash flows without any consideration of collection costs.

Where the carrying amount exceeds the present value of the estimated future cash flows discounted at the asset's original Effective Interest Rate ("EIR"), the Group recognises an impairment loss.

On 22 February 2022, the Group entered into a binding agreement to sell its New Zealand PDLs. This will result in the disposal of $11,443,000 in PDL (carrying amount as at reporting date) in the second half of the financial year, for consideration of NZD$13,000,000 (approximately A$12 million). The Group retains its small portfolio of Australian PDLs and a recently signed three-year NZ forward-flow arrangement. Refer to note 13 for further information on forward-flow commitments and note 16 for further information on events occurring after the reporting date.

7. Intangible assets

	Consolidated	
	31 Dec 2021 $'000	Restated[1] 30 Jun 2021 $'000
Goodwill	**19,726**	19,723
Computer software	**6,414**	7,472
Customer contracts	**202**	291
Work-in-progress	**946**	474
Total intangible assets	**27,288**	27,960

(1) See note 1(a) for details about restatements for changes in accounting policies.

8. Borrowings

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current	**5,088**	11,733
Non-current	**49,761**	49,419
Total borrowings	**54,849**	61,152

Coincident with the income tax refund received of $12,335,000 in October 2021, the Group repaid $10,063,000 other loans in full.

The Group received the following during the half-year in respect of its senior debt:

- waiver letter on 6 October 2021 in respect of its September 2021 Consolidated EBTDA financial covenant;
- waiver and deferral letter on 23 December 2021 in respect of its December 2021 Consolidated EBITDA financial covenant and deferral of its quarterly $418,000 repayment to 31 January 2022.
- $3,000,000 increased funding under its Term Loan Facility (Facility A) with the increase subject to short-term repayment obligations under an agreed program to recapitalise the business or completion of VOLT asset sales.

The outstanding senior debt facilities as at the reporting date is $54,849,000 with repayments of $5,088,000 due in the next 12 months.

After the end of the reporting period, the Group has received $3,000,000 additional increase in funding under its existing Facility A on terms consistent with those discussed above and extensions to the deferral of December quarterly repayments until 28 February 2022.

On 22 February 2022, the Group entered into a number of interrelated agreements, including:

Amendment Deeds

Amendment Deeds (AD) were entered into with the senior debt lenders, separately and collectively, re-tranching $6,000,000 ($3,000,000 at reporting date) of funding into a new Facility C ('Volt Facility'). The Volt Facility is secured on a limited-recourse basis against the Group's investment in Volt Bank Limited.

Standstill Agreement

The Group entered into a Standstill Agreement (SA) with Credit Corp Group Limited ('CCP'), following CCP's acquisition of $52,053,000 ($51,849,000 at reporting date) of the Group's senior debt facilities. The SA waives all financial covenants and mandatory principal repayment obligations, with interest payments being capitalised to the facility balance thereafter.

CCP Facility Agreement

A Working Capital Facility (WCF) was made available, providing an additional $5,000,000 (NZD$5,350,000) in funding facility. The WCF is available for drawdown until 31 March 2022 and will terminate on the earliest of 30 June 2022 or when the NZ PDL Portfolio Sale completes, at which point all principal and interest will become due and payable. This WCF was fully drawn at the date of this report.

Refer to note 16 for further information on the recapitalisation transaction.

9. Deferred tax balances

(a) Deferred tax asset

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
The balance comprises temporary differences attributable to:		
Tax losses	**-**	44,022
Other financial liabilities	**4,660**	9,021
Equity investments	**-**	1,495
Provisions	**990**	1,885
Other	**-**	1,984
	5,650	58,407
Set-off of deferred tax liabilities pursuant to set-off provisions (b)	**(5,650)**	(6,518)
Net deferred tax assets	**-**	51,889

(b) Deferred tax liabilities

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**5,423**	6,219
Sublease Receivables	**222**	294
Other	**5**	4
	5,650	6,518
Set-off of deferred tax liabilities pursuant to set-off provisions (a)	**(5,650)**	(6,518)
Net deferred tax liabilities	**-**	-

(c) Deferred tax assets not recognised

The amount of deductible temporary differences and unused tax losses for which no deferred tax assets have been brought to account:

- Tax losses: operating losses $194,668,000 (30 Jun 2021: $31,710,000)

Australian tax losses do not expire and are able to be carried forward indefinitely subject to satisfying the continuity of ownership or similar business tests under Australian tax law. Similar rules apply in New Zealand with New Zealand tax losses able to be carried forward indefinitely subject to satisfying the shareholder continuity test or business continuity test under New Zealand tax law. Unrecognised losses are able to be recognised and used in the future as taxable profits are generated.

10. Impairment assessment

The Group performs an impairment test annually for intangible assets with indefinite useful life, such as goodwill, and for property, plant and equipment and other intangible assets when indicators of impairment exist. During the period the Group has identified the following impairment indicator:

- client imposed restrictions on collection activities as a result of the on-going COVID-19 pandemic; and
- unutilised floor space in Brisbane Head office as a result of the structural changes to the business and the ongoing COVID-19 impacts, resulting in an indicator of impairment in respect of that individual lease right-of-use asset.

(a) Goodwill impairment assessment

As a result of the impairment assessment, the Group has determined that the carrying value of intangible assets does not exceed their value in use, and no impairment charge was required (2020: Nil).

(b) Brisbane Head office right of use impairment assessment

Unutilised floor space exists within the Brisbane Head office as a result of the structural changes to the business and the ongoing COVID-19 impacts, resulting in an indicator of impairment in respect of that individual lease right-of-use asset.

Whilst the asset does not generate cash inflows that are largely independent of other assets, *AASB 136 Impairment of Assets* provides an exception in circumstances where an asset's value in use (VIU) can be estimated to be close to its fair value less costs of disposal (FVLCD) and FVLCD can be measured.

The Group has determined the right of use asset's VIU to be close to its FVLCD on the following basis:

- the unused floor space can be sublet;
- FVLCD can be measured by way of the market rent receivable from sub-letting; and
- the period of 'own use' is minimal compared to the remaining period of the head lease available for sub-letting.

(i) Impairment charge

As a result of the impairment assessment, the Group has determined that the carrying value of the Brisbane Head office right of use asset exceeds its FVLCD. The shortfall of $850,000 between the asset's carrying amount and FVLCD has been recognised as an impairment charge in the income statement. Sensitivity analysis on reasonably possible changes in timing of sub-leases would impact the right of use impairment recognised in the financial statements by an additional impairment of $266,000 for a three-month delay in sub-leasing.

11. Contributed equity

(a) Share capital

	Company		Company	
	31 Dec 2021 Shares	30 Jun 2021 Shares	31 Dec 2021 $'000	30 Jun 2021 $'000
Ordinary shares – fully paid	**141,948,162**	141,948,162	**120,260**	120,260
Treasury shares	**(341,820)**	(420,901)	**(465)**	(571)
Total contributed equity	**141,606,342**	141,527,261	**119,795**	119,689

(b) Treasury shares

When share capital recognised as equity is repurchased or held by employee share plans and subject to vesting conditions, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

12. Dividends

There have been no dividends paid or declared during the half-year ended 31 December 2021 (2020: Nil).

13. Contingent liabilities

The Group had contingent liabilities at 31 December 2021 in respect of:

Purchase Agreement with Put & Call Option with Insolve Capital Australia Pty Ltd (Balbec Capital LP)

(a) The Group had assigned five years' cash flow to Insolve Capital Australia Pty Ltd (Balbec Capital LP) through a put and call option agreement.
(b) The Group has the option to repurchase the residual rights to collect the remaining arrangements at the end of the five-year agreement, at a market price determined by the performance of the accounts during the term of the agreement.

The three purchase agreements with Put & Call option have the following expiry dates:

- 3 November 2023
- 2 December 2024
- 25 April 2025

Guarantees

(a) Bank Guarantees (secured) exist in respect of satisfying contract terms amounting to $8,176,610 (30 Jun 2021: $8,176,610). During the period, the increase is mainly contributed by new Bank Guarantees that were required to secure performance of new Lease premises.
(b) Guarantees and Indemnities (secured) given by the Company and certain of its subsidiaries in support of the existing Syndicated Loan Facility provided by Westpac Banking Corporation and Commonwealth Bank of Australia, are currently in place.

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

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

14. Commitments

(a) Capital commitments

Capital expenditure contracted for in relation to purchased debt commitments at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	31 Dec 2021 $'000	**30 Jun 2021 $'000**
Within one year	**2,520**	833
Later than one year, but not later than five years	**4,600**	-
	7,120	833

The Group renewed a New Zealand forward flow purchase arrangement in December 2021, securing purchases for a further three years. Whilst the New Zealand PDL portfolio as at 31 December 2021 has been sold as a part of the transaction outlined in the subsequent event note below, the forward flow agreement has been retained.

15. Earnings/(Loss) per share

	Consolidated	
	31 Dec 2021 Cents	Restated[1] 31 Dec 2020 Cents
(a) Basic earnings/(loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**(44.9)**	(6.7)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**(44.9)**	(6.7)
(b) Diluted earnings/(loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**(44.9)**	(6.7)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**(44.9)**	(6.7)

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

	Consolidated	
	31 Dec 2021 $'000	Restated[1] 31 Dec 2020 $'000
Basic earnings/(loss) per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(63,703)**	(9,503)
	(63,703)	(9,503)
Diluted earnings/(loss) per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(63,703)**	(9,503)
	(63,703)	(9,503)

(1) See note 1(a) for details about restatements for changes in accounting policies.

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

	Consolidated	
	31 Dec 2021 Number	31 Dec 2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**141,948,162**	141,435,845
Adjustments for calculation of diluted earnings per share:		
Performance Rights	**210,736**	495,634
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**142,158,898**	141,931,479

16. Events occurring after the reporting period

On 22 February 2022, the Group entered into a series of transactions ("the Recapitalisation") which, when completed, will result in the Company being substantially debt-free and with sufficient cash reserves to continue execution of its previously described operating strategy. The Recapitalisation provides the Company with sufficient capital to return the business to profitability, in line with the business turnaround initiatives set out below, and in conjunction with an expectation of improving trading conditions in the debt collection sector.

The Recapitalisation comprises a number of interrelated transactions:

- the Company has entered into a binding agreement to sell its New Zealand purchased debt ledgers to Credit Corp Group Limited ("CreditCorp") for a total purchase price of NZD $13,000,000 (approximately A$12 million). The transaction is subject to customary closing conditions and adjustments and is expected to complete by the end of March 2022;
- CreditCorp has agreed to provide the Company with a short-term working capital facility repayable upon the earlier of completion of the NZ PDL Transaction and 30 June 2022;
- CreditCorp has also simultaneously acquired substantially all of the Company's outstanding senior debt - approximately AUD $51,849,000 from the Company's existing lenders, and has agreed to a standstill on the repayment of the Acquired senior debt; and
- Upon completion, the proceeds of the NZ PDL Transaction will be applied to repay the working capital facility in full, and in part repayment of the Senior Debt. CreditCorp will then release the Company from the remaining balance of the Acquired Senior Debt.

Following the completion of the Recapitalisation, CLH will have approximately $9,000,000 of cash reserves. The Company's only remaining senior debt will be a $6,000,000 facility secured on a limited-recourse basis against the Company's investment in Volt Bank Limited. CLH is actively exploring opportunities to realise this investment and expects to repay this remaining facility in the near future

The Group is not aware of any other matter or circumstance that has arisen since 31 December 2021 up until the date of this report that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Directors' Declaration

for the half-year ended 31 December 2021

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 27 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half-year ended on that date,

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Leigh Berkley
Chairman

Brisbane
28 February 2022

KPMG

Independent Auditor's Review Report

To the shareholders of Collection House Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Collection House Limited (the "Company").

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Collection House Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2021 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated balance sheet as at 31 December 2021
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Collection House Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1(b), "Going Concern" in the Half-year Financial Report. The events or conditions disclosed in Note 1(b), indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Half-year Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the Half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Ben Flaherty
Partner

Brisbane
28 February 2022