

Thorn Group Limited

ABN 54 072 507 147

2018 ANNUAL RESULTS FOR ANNOUNCEMENT TO THE MARKET

This information is the information required under ASX Listing Rule 4.3A.

Contents

1. Appendix 4E
2. Annual financial statements for the year ended 31 March 2018
3. ASX and Media Release
4. Full Year Results Presentation
5. Appendix 4G

Appendix 4E Preliminary Final Report under ASX Listing Rule 4.3A

Current year: 1 April 2017 to 31 March 2018

Previous corresponding year: 1 April 2016 to 31 March 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Year ended	31 March 2018 \$'000s	31 March 2017 \$'000s	% Change
Revenue from ordinary activities- Continuing operations	236,193	277,597	Down 15%
(Loss)/ Profit from discontinued operation, net of tax	2,839	4,296	Down 34%
Reported net profit after tax	(3,624)	25,308	Down 114%

Additional commentary on the results for the period and other Appendix 4E disclosure requirements can be found in the annual financial report for the year ended 31 March 2018.

DIVIDENDS	Amount per ordinary share	Franked amount per ordinary share
Interim dividend (paid 19 January 2018)	1.0 cents	1.0 cents
Final dividend (declared, not yet provided at 31 March 2018)	Nil	Nil

NET TANGIBLE ASSETS	31 March 2018	31 March 2017
Net tangible assets per ordinary share	124 cents	117 cents

Entities over which control has been gained or lost over entities during the period

Thorn Personal Finance Pty Limited
1st Cash Pty Limited
Cash Resources Australia Pty Limited
Cash Resources Australia Unit Trust

Disposed 1 November 2017
Disposed 28 February 2018
Disposed 23 February 2018
Disposed 23 February 2018

2018 ANNUAL GENERAL MEETING

The 2018 Annual General Meeting will be held on Wednesday 29 August 2018 at 11.00 am in the KPMG Auditorium, Tower Three International Towers Sydney, 300 Barangaroo Avenue, Sydney, NSW, 2000

Compliance statement

This report is based on the consolidated financial report which has been audited.

Refer to the attached full financial report for all other disclosures in respect of the Appendix 4E.



Signed

..... Date 30 May 2018

David Foster
Chairman



Annual Financial Report

31 March 2018

ACN 072 507 147

CONTENTS

Directors' Report	2
Lead Auditor's Independence Declaration	22
Consolidated Statement of Profit or Loss and Other Comprehensive Income	23
Consolidated Statement of Financial Position	24
Consolidated Statement of Changes in Equity	25
Consolidated Statement of Cash Flows	26
Notes to the Consolidated Financial Statements	28
Directors' Declaration	53
Independent Auditor's Report	54

DIRECTORS' REPORT

For the year ended 31 March 2018

The Directors present their report together with the financial report of Thorn Group Limited (the 'Company') and its controlled entities (together referred to as 'Thorn', the 'Group' or the 'consolidated entity') for the financial year ended 31 March 2018 and the auditor's report thereon.

OPERATING AND FINANCIAL REVIEW

Thorn is a diversified financial services group providing financial solutions to consumers and businesses. Business activities are the leasing of household products to consumers and the provision of leasing and other financial services to small and medium size enterprises.

The Group also provided trade and debtor finance services and consumer loans during the year but those businesses were sold during the year. Accordingly, those two divisions have been treated as discontinued businesses in the financial statements where they are presented as a one line entry above profit after tax.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

Financial performance

Revenue from continuing operations decreased from \$277.6m in the prior year to \$236.2m this year, a reduction of \$41.4m or 15%. Profit after tax fell from a profit of \$25.3m in 2017 to a loss of \$(3.6m) in 2018. The loss included a \$20.7m charge to write off goodwill and so the cash profit, defined as the profit excluding that write off, was \$17.0m (2017: \$25.3m).

The lower profit result reflects principally the difficult trading conditions experienced during the year by the Company's consumer leasing division, Radio Rentals.

Equipment Finance enjoyed another year of strong profit growth and the interest expense line rose as debt was used to fund a portion of the growing receivables book.

Corporate expenses were elevated due to the legal and compliance costs of the ASIC and class action matters. The Company examined the carrying value of its goodwill balance during the year in response to the declining cash flows and concluded the balance should be written off in its entirety. The Company restructured its portfolio of business units and de-risked its capital structure during the year with the sale of two Group businesses. These sales allowed the Company to meet the progressive debt repayment obligations instituted by the Company's lender.

The Board oversaw changes in its senior management team during the year most notably with the departure of its Chief Executive Officer & Managing Director, its Chief Operating Officer and its General Manager Consumer Leasing. The Company's Chief Financial Officer, Peter Forsberg, stepped into the CEO role for ten months until the Company's new CEO & Managing Director, Tim Luce, could commence his employment on 15 February 2018.

Segment performance – continuing operations

A\$m	Segment revenue		Segment EBIT to PAT	
	2018	2017	2018	2017
Consumer Leasing	196.5	251.2	26.4	36.3
Equipment Finance	39.7	26.4	24.2	16.1
Corporate	-	-	(14.8)	(11.6)
Goodwill impairment	-	-	(20.7)	-
Sub-total	236.2	277.6	15.1	40.8
Net interest expense			(15.7)	(9.5)
Profit before tax			(0.6)	31.3
Tax expense			(5.8)	(10.3)
(Loss)/profit after tax from continuing operations			(6.4)	21.0
Profit from discontinued businesses after tax			2.8	4.3
(Loss)/profit after tax			(3.6)	25.3

DIRECTORS' REPORT

For the year ended 31 March 2018

Consumer Leasing

The Company's consumer Leasing division, Radio Rentals, continued to experience challenging trading conditions due to adverse publicity, the deferral of returning customers caused by the launch of the four year contract three years ago, and operational changes from the launch of its new online customer application and credit assessment system. These matters combined to reduce customer enquiries and installation volumes such that volumes ended the year 33% lower than the prior year.

The division responded to these challenges in recent months by increasing promotional activity, widening the product range, and commencing a trial of reformatted store layouts and offers to spur sales activity. The activities to date have served to stabilise sales and further work is underway to lift volumes. The division has also refunded substantially all the excess credit balances held and developed a plain English contract to assist consumers in clearly understanding the contract they are entering into.

Revenue for the 2018 financial year reduced by 22% to \$196.5m (2017: \$251.2m). Revenue is a combination of interest and fee income from past written contracts and sales revenue from installations under new contracts. Installations fell 33% to 82,371 units (2017: 122,189 units) and the receivables book, which generates the interest income, fell \$17.6m to \$155.2m (2017: \$172.8m). Arrears in this book increased over the prior year and are a focus for the business.

The division's costs reduced by 21% to \$170.2m (2017: \$214.8m) so the EBIT to Revenue percentage fell from 14.5% in the prior year to 13.4% this year. The division continues to seek efficiencies in its operations including changes to its operating model to redress this fall. EBIT was consequently down 27% to \$26.4m (2017: \$36.3m).

Equipment Finance

The Thorn Equipment Finance ('TEF') business continued its run of strong growth with \$208.9m of originations in the year which drove the net receivables book up 36% or \$86.9m to \$326.2m (2017: \$239.3m). As pricing was kept fairly constant the book growth translated into interest and fee revenue growth of 50% to \$39.7m (2017: \$26.4m).

Impairment losses as a percentage of average net receivables were 1.7% compared to the prior year's 1.8%. Average arrears delinquency over 30 days past due has remained in the 2.0% to 2.5% range. EBIT rose 50% to \$24.2m (2017: \$16.1m).

Corporate

Corporate Head Office expenses increased by \$3.2m to \$14.8m (2017: \$11.6m). The increase was due to enhancement of the credit, risk and legal teams and additional legal and advisory costs in administering to the regulatory and class action matters.

Finance expense

Net borrowing costs increased by 65% from \$9.5m to \$15.7m. Borrowings increased during the year as growth in the Equipment Finance book was funded predominantly by debt but then reduced in the latter part of the year as proceeds from the business sales were applied to reduce debt. Borrowings ended the year \$7.8m or 2.8% up to \$284.3m (2017: \$276.5m) as the TEF debt warehouse rose \$91.3m and the corporate debt facility reduced by \$83.5m. The finance expense rate rose as credit spreads ticked up during the period and there were fees for the facility increases and extensions.

Tax expense

The Group generally pays corporation tax at or slightly above the 30% statutory rate as some expenses are not tax deductible. In this financial year the goodwill impairment charge of \$20.7m is a non-deductible expense so the tax rate adjusting for that was 29%.

Profit after tax for continuing operations

The reported result after tax for continuing operations was a loss of \$6.4m.

Discontinued operations

The Trade & Debtor Finance ("TDF") business recorded a profit after tax of \$0.7m prior to its sale on 26 February 2018. The business was sold for \$37.9m and the profit on sale was reduced by the costs of sale and provisioning to record a net loss after tax on sale of \$(0.4m).

The Consumer Finance business division ("TFS") was closed in the previous financial year and sold on 1 November 2017 for \$13.3m. It recorded a profit after tax of \$1.7m prior to its sale. The profit on sale was \$0.6m.

The NCML Receivables Management business was sold to a third party in September 2016. During the year the group received a further \$0.2m following a completion audit.

DIRECTORS' REPORT

For the year ended 31 March 2018

Financial position

The balance sheet is presented below and has two versions. The first version excludes the securitised warehouse trust for the Equipment Finance receivables along with those associated receivables (which are non-recourse funding for the warehouse) leaving only the corporate bank debt facility, and the second is as per the statutory accounts format with all debt included. The Company's lender views their covenants through the first version.

The balance sheet for the 2018 year also reflects the sale of the discontinued businesses and the associated reduction in the Group's debt position.

Summarised financial position \$m	31 March 2018		31 March 2017	
	excl. Trust	incl. Trust	excl. Trust	incl. Trust
Cash at bank ⁽ⁱ⁾	28.2	28.2	14.7	14.7
Receivables	202.3	504.3	305.8	493.0
Investment in unrated notes	58.7	-	35.2	-
Rental and other assets	11.4	11.4	17.6	17.6
Intangible assets	4.8	4.8	24.3	24.3
Total Assets	305.4	548.7	397.6	549.6
Borrowings	41.0	284.3	124.5	276.5
Other liabilities	61.5	61.5	62.9	62.9
Total Liabilities	102.5	345.8	187.4	339.4
Total Equity	202.9	202.9	210.2	210.2
Gearing (net debt/equity) ⁽ⁱⁱ⁾	16.1%	135.9%	56.1%	128.4%
EPS		(2.3)		16.2
Return on Equity ⁽ⁱⁱⁱ⁾		(1.8%)		12.4%

(i) Cash at bank consists of free cash of \$8.4m (2017: \$6.7m) and restricted cash \$19.8m (2017: \$8.0m) relating to the operation of the securitised warehouse SPV.

(ii) Gearing is calculated as closing net debt (i.e. debt less free cash) divided by closing equity

(iii) ROE is calculated as PAT divided by the average of opening and closing equity and annualised. With goodwill impairment excluded ROE would have been 7.8% (2017:12.4%).

Receivables

Receivables increased by 2.3% or \$11.3m to \$504.3m during the year. This movement is affected by the sales of TDF and TFS as their receivables balance was a combined \$60m in 2017. Consumer leasing receivables fell by 10.2% or \$17.6m to \$155.2m as the finance leases within it amortised off faster than new volumes could replace it. Equipment Finance lease receivables increased by 36% to \$326.2m due to continued strong originations.

Borrowings and gearing

Borrowings rose by \$7.8m from \$276.5m last year to \$284.3m this year. The securitised warehouse funding TEF grew \$91.3m from \$152.0m to \$243.3m. The corporate facility was reduced by \$83.5m from \$124.5m to \$41.0m as the sale proceeds from the business sales were applied to meet the required progressive repayments.

Return on Equity

ROE fell from 12.4% to (1.8%) on a statutory accounts profit after tax level and to 7.8% at a cash profit level.

DIRECTORS' REPORT

For the year ended 31 March 2018

Funding

The Group has the following debt facility limits:

\$m	2018	2017
Secured Corporate Loan Facilities A and B	70.0	110.0
Secured Loan Facility C	-	65.0
Securitised Warehouse Facility	250.0	180.0

The Group continues to be funded by one Australian major bank. That bank and the Company entered into a facility variation agreement during the year which required the Company to undertake progressive debt repayments and meet new covenants. These progressive repayments will reduce the facility limit to \$50m by 30 September 2018.

The corporate facilities terminate on 30 November 2019 with the bank having the right to a scheduled review of the facility on and from 30 September 2018 resulting from which they may issue a change notice for the conditions of the facility including its cost, margin, limit or terms and conditions.

The corporate facilities are secured by a fixed and floating charge over the assets of the consolidated entity. The warehouse facility is secured by the rentals and payments receivable from the underlying lease receivable contracts and is non-recourse to the Group beyond Thorn's subordinated notes in the warehouse.

Dividends paid or recommended

Dividends paid by the Company to members during the financial year were:

	Cents per share	Amount \$'000	Franking	Date of payment
2018				
Final 2017	2.5	3,956	100%	18-Jul-17
Interim 2018	1.0	1,593	100%	19-Jan-18
Total amount		5,549		
2017				
Final 2016	6.0	9,268	100%	18-Jul-16
Interim 2017	5.5	8,612	100%	20-Jan-17
Total amount		17,880		

Directors have resolved that no final dividend be declared. This decision was taken after considering the need to retain cash to provide balance sheet flexibility for the Company following the changes to its bank financing arrangements and its loss for the year.

Regulatory provision

Thorn's consumer leasing division has been engaging with ASIC on matters pertaining to customer credit refunds and the appropriate and necessary extent of verification of items of customer income and expenditure.

On 23 January 2018, Thorn advised that this long running investigation had concluded with the imposition of an Enforceable Undertaking including the refunding of an estimated \$6.1m to affected customers and a civil penalty of \$2.0m which has since been confirmed by the Court. These amounts are provided for in the financial statements. Refunds will commence under the Enforceable Undertaking in coming weeks. Excess credits have been substantially refunded.

Contingent Liability

Class Action

The Thorn subsidiary running Radio Rentals was named on 29 March 2017 as the respondent to a class action proceeding that has been commenced by one of its customers in the Federal Court of Australia. The allegations presently relate to misleading, deceptive and unconscionable conduct, false representations and unfair contract terms.

The matter is being defended and no provision has been taken in these accounts. Legal fees are and will be incurred defending the matter.

DIRECTORS' REPORT

For the year ended 31 March 2018

FINANCING AND GOING CONCERN BASIS FOR THE FINANCIAL REPORT

At the half year ended 30 September 2017, the Company had breached two of its bank covenant financial ratios. The bank formally waived the breach and instituted a facility variation deed which required the Company to undertake progressive debt repayments and meet new covenants. The facility variation deed reduced the facility limit to \$90m by 31 December 2017, \$70m by 30 June 2018, and \$50m by 30 September 2018.

Directors were confident the company could meet these progressive repayments and indeed the corporate debt facility was paid down to \$41m in February 2018 utilising operational cash flows and proceeds from the sale of Thorn Financial Services and Trade & Debtor Finance.

Subsequent to the financial year end, the bank has instituted a further facility variation deed which has removed one of the previous tightening financial covenants and applied a replacement earnings based covenant. The facility variation deed entered into at the half year provided for the facility termination date to be extended to 30th November 2019 with the bank having the right to conduct an independent review of the facility on 30th September 2018 and to amend the facility terms. The directors are confident the company has a number of alternative funding options available if required.

Accordingly, the directors are satisfied that the going concern basis should be adopted in preparing this financial report.

SUBSEQUENT EVENTS

ASIC

The Company attended a Federal Court hearing for the ASIC v Thorn Australia Pty Ltd regulatory matter on 16 May at which the Court ordered Thorn to pay a pecuniary penalty of \$2 million and reimburse ASIC's agreed costs. This was as previously advised to the ASX on 23 January 2018.

AASB 9

The Group will implement AASB 9 Financial Instruments in the new financial year commencing 1 April 2018. This standard introduces a new impairment assessment model which has implications for the Group's assessment of its provision for credit losses. The Group has conducted a preliminary review of the anticipated impact and expects the provision for credit loss on its finance lease and loans receivables book to increase from \$26.1m to between \$34.1m and \$39.1m. After accounting for the tax effect of these provision increases, net assets is expected to reduce by an amount between \$5.6m to \$9.1m. The net impact of this increased provisioning will be processed through retained earnings in the 2019 financial statements.

OUTLOOK

The outlook for the Thorn Group will continue to be challenged as the difficulties facing the Radio Rentals division require time to resolve and will not be balanced by the expected continuing strong performance from Equipment Finance.

The appointment of the Company's new CEO, Tim Luce, is expected to deliver a positive impact to the business and the consumer leasing division in particular but Mr Luce is taking over at a point where the significant impacts of the regulatory matters and their flow on effects have reduced installation volumes in Radio Rentals and the size of the interest earning receivables book. These will take time to redress.

The Equipment Finance division is growing strongly but this will be subject to the continuing availability of funding. The Group also faces the ongoing publicity and costs from the class action and enforceable undertaking.

Consequently, as previously announced, the operating profit after tax for next year will be significantly down from this year's continuing business \$14.2m cash profit after tax. It is expected to be in the range of \$7m to \$10m.

DIRECTORS' REPORT

For the year ended 31 March 2018

DIRECTORS' INFORMATION

David Foster

Independent, Non-Executive
Appointed 1 December 2014
Appointed Board Chairman 1 February 2018

Qualifications

Bachelor of Applied Science
MBA, GAICD, SFFIN

Experience

David is an experienced Independent Non-Executive Director across a range of industries. He has had an extensive career in Financial Services spanning over 25 years.

His most recent executive role until December 2013 was CEO of Suncorp Bank, a role he commenced in September 2008. Prior to his role as CEO of Suncorp Bank, David lead Suncorp's strategy function which included numerous merger and acquisition activities including one of Australia's largest Financial Services transactions – Promina Limited.

Other current ASX directorships

G8 Education Limited, MotorCycle Holdings Limited
Genworth Mortgage Insurance Australia Limited

Former ASX directorships

Kina Securities Limited

Interests in shares and options

60,270 ordinary shares

Joycelyn Morton

Independent, Non-Executive
Appointed 1 October 2011
Appointed Board Chairman 26 August 2014 until 1 Feb 2018

Qualifications

Bachelor of Economics FCA, FCPA, FIPA, FGIA, FAICD

Experience

Joycelyn has more than 35 years' experience in finance and taxation having begun her career with Coopers & Lybrand (now PwC), followed by senior management roles with Woolworths Limited and global leadership roles in Australia and internationally within the Shell Group of companies.

Joycelyn was National president of both CPA Australia and Professions Australia, she has served on many committees and councils in the private, government and not-for-profit sectors.

Other ASX current directorships

Argo Investments Limited, Argo Global Listed Infrastructure Limited, Beach Energy Limited

Former ASX directorships

InvoCare Limited, Crane Group Limited
Count Financial Limited, Noni B Limited

Interests in shares and options

95,119 ordinary shares

Stephen Kulmar

Independent, Non-Executive
Appointed 15 April 2014

Chairman of the Remuneration & Nomination Committee
Appointed 15 April 2014

Experience

Stephen is the former Managing Director and Chairman of IdeaWorks and is currently the Managing Director of Retail Oasis, retail marketing and business consultancy.

Stephen has over 40 years' experience in advertising and has extensive experience in retail strategy, brand strategy, channel to market strategy, digital and social strategy, business re-engineering and new retail business development.

Other ASX current directorships

Accent Group Ltd

Former ASX directorship

None

Interests in shares and options

68,000 ordinary shares

Andrew Stevens

Independent, Non-Executive
Appointed 1 June 2015

Chairman of the Audit Committee
Appointed 1 February 2018

Qualifications

Master of Commerce
FCA, MAICD

Experience

Andrew began his career at Price Waterhouse (now PwC) and was a Partner of that firm for 12 years. He also performed a range of senior management and global leadership roles at IBM Corporation, most recently serving as the Managing Director of IBM Australia and New Zealand from 2011-2014.

Other ASX current directorships

MYOB Group Limited, Stockland Corporation Limited

Former ASX directorships

None

Interests in shares and options

15,720 ordinary shares

DIRECTORS' REPORT

For the year ended 31 March 2018

Belinda Gibson

Independent, Non-Executive
Appointed 1 July 2016

Chairman of the Risk & Compliance Committee
Appointed 1 February 2018

Qualifications

Bachelor of Economics, LLB (Hons) (Sydney) and LLM (Hons) (Cambridge), FAICD, FGIA

Experience

Belinda was a Commissioner and then Deputy Chairman of the Australian Securities and Investments Commission (ASIC) from 2007 until May 2013. From 1987 until joining ASIC she was a corporate law partner at the law firm Mallesons Stephen Jaques, specialising in transactional advice and also corporate governance issues.

Other ASX current directorships

None

Former ASX directorships

None

Interests in shares and options

20,000 ordinary shares

James Marshall

Managing Director
Appointed 5 May 2014, Resigned 21 April 2017

Qualifications

Dip. Financial Services
MAICD, MFTA

Experience

James joined the company in 1993 and held several frontline and senior management positions prior to joining the Executive Team which took the company to public listing in 2006.

James has extensive knowledge of consumer leasing, receivables management and broader financial services industries, and has been instrumental in driving the development and growth of Thorn's core business divisions and diversification strategy since the IPO.

Other ASX current directorships

None

Former ASX directorships

None

Interests in shares and options

10,000 ordinary shares

Tim Luce

Managing Director
Appointed 15 February 2018

Qualifications

Bachelor of Commerce

Experience

Tim has extensive executive experience working with retail brands in Australia and Asia and joins Thorn Group after six years with Courts Asia Ltd, an SGX listed retailer with over 90 stores selling household, technology, furniture, services and consumer finance products, headquartered in Singapore where he was Chief Operating Officer with P&L responsibility for Singapore, Malaysia and Indonesia. Prior to Courts, Tim held General Manager roles for Lovisa and Goldmark Jewellers.

Other current ASX directorships

None

Former ASX directorships

None

Interests in shares and options

1,197,606 performance rights over ordinary shares awarded as a sign on bonus and held in escrow subject to time based vesting.

DIRECTORS' REPORT

For the year ended 31 March 2018

COMPANY SECRETARIES

Peter Forsberg is the Group's CFO having joined the company on 28 September 2015. He acted as the Group's CEO from 24 April 2017 until 15 February 2018. Mr Forsberg BSc Hons, FCA, F Fin, GAICD, MFTA is an experienced and qualified CFO and senior executive having worked in healthcare, manufacturing and distribution, FMCG, professional services, and in publicly listed, private equity owned and charitable companies operating both in Australia and internationally.

David Lines is the Group's General Counsel having joined the company on 1 June 2017. David is an experienced and qualified solicitor with extensive legal and business experience having practiced in England, Bermuda and Australia. He was a partner of an international law firm and advised clients in corporate law, corporate finance, corporate structuring and general regulatory matters.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are detailed below.

Director	Board Meetings		Audit, Risk & Compliance Committee Meetings** (Until 1 February 2018)		Audit Committee Meetings** (From 1 February 2018)		Risk & Compliance Committee Meetings** (From 1 February 2018)		Remuneration & Nomination Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
David Foster	9	9	4	4	1	1	1	1	5	5
Joycelyn Morton	9	9	4	4	1	1	1	1	5	5
Belinda Gibson	9	9	4	4	1	1	1	1	5	5
Andrew Stevens	9	9	4	4	1	1	1	1	5	5
Stephen Kulmar	9	9	4	4	1	1	1	1	5	5
Tim Luce	2	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
James Marshall*	-	-	-	-	-	-	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

n/a – Mr Tim Luce, as an executive Director, attended Committee meetings but as an invitee only

* Mr Marshall departed on the 21 April 2017 which was prior to any meetings being held in the year.

** The Audit, Risk & Compliance Committee was restructured from 1 February 2018 in to a separate Audit Committee and a Risk & Compliance Committee.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has agreed to indemnify the current, former and subsequent directors and officers of the Company, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year the Company has paid insurance premiums of \$220,421 in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving misconduct. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

DIRECTORS' REPORT

For the year ended 31 March 2018

REMUNERATION REPORT – AUDITED

The Board of Thorn Group Limited presents the remuneration report which outlines key aspects of the remuneration policy and framework and the remuneration awarded this year.

The information provided in this report has been prepared based on the requirements of the Corporations Act 2001 and the applicable accounting standards and has been audited by KPMG.

The report is structured as follows:

1. Remuneration governance
2. Non-Executive Directors and Key Management Personnel
3. Non-Executive Director remuneration
4. Key Management Personnel remuneration
5. Alignment between remuneration and performance
6. Service contracts for KMP
7. Other statutory disclosures

1. REMUNERATION GOVERNANCE

The Company aims to deliver sustainable and superior returns to shareholders. The remuneration framework is designed to ensure rewards are appropriate for the results achieved and are aligned to the Company's strategic goals and shareholder wealth creation.

The Board provides guidance and oversight to the remuneration strategy and has established a Remuneration & Nomination Committee to ensure the remuneration strategy attracts and retains quality directors and executives, fairly and responsibly rewards them, is equitable and aligned to shareholders' interests, and complies with the law and high standards of governance.

The Committee is made up of independent non-executive directors and its charter is available on the Company website. The Committee makes recommendations to the Board for its consideration and approval. The Committee Chairman will be available at the Annual General Meeting to answer any questions from shareholders on this report. At the 2017 AGM, the Remuneration Report received a vote of approval of 97% of the votes received.

The Committee can draw on independent experts where appropriate to provide advice on remuneration levels, trends and structures. Where this occurs the consultants are instructed by and report directly to the Chairman of the Committee and are thereby free of any undue influence by any KMP to whom their recommendations may relate. The Committee took advice from PwC in relation to Mr Luce's employment arrangements during the year at a cost of \$33,660.

DIRECTORS' REPORT

For the year ended 31 March 2018

2. NON-EXECUTIVE DIRECTORS AND KEY MANAGEMENT PERSONNEL - AUDITED

For the year ended 31 March 2018, the NEDs and KMP were:

Non-Executive Directors	Position	Director/Committee Chair Term or Date
David Foster	Director	Full Year
	Board Chairman	From 1 February 2018
	Chairman of the Audit, Risk & Compliance Committee	Until 1 February 2018
Joycelyn Morton	Director	Full Year
	Board Chairman	Until 1 February 2018
Stephen Kulmar	Director	Full Year
	Chairman of the Remuneration & Nomination Committee	Full Year
Andrew Stevens	Director	Full Year
	Chairman of Audit Committee	From 1 February 2018
Belinda Gibson	Director	Full Year
	Chairman of Risk & Compliance Committee	From 1 February 2018

Executive KMP	Position	Term or Date
Tim Luce	CEO	From 15 February 2018
	Managing Director	From 19 February 2018
Peter Forsberg	Acting CEO	From 24 April 2017 to 15 February 2018
	Chief Financial Officer	Full Year
	Company Secretary	Full Year
Wendy Yip	Chief Risk Officer	Full Year
David Lines	General Counsel and Company Secretary	From 1 June 2017
Matt Ingram	Chief Operating Officer	Until 5 March 2018
James Marshall	CEO and Managing Director	Until 21 April 2017

Changes to KMP during the year

Mr Marshall resigned from his position as CEO and Managing Director on 21 April 2017. Thorn's Chief Financial Officer and Company Secretary, Peter Forsberg, was appointed Acting CEO on 24 April 2017. Mr Lines was appointed as General Counsel on 1 June 2017 and Company Secretary on 18 October 2017. Mr Luce was appointed as CEO and Managing Director on 15 February 2018 upon which Mr Forsberg returned to his CFO role. Mr Ingram left the company on 5 March 2018.

DIRECTORS' REPORT

For the year ended 31 March 2018

3. NON-EXECUTIVE DIRECTOR REMUNERATION - AUDITED

Non-executive directors' fees are determined within an aggregate directors' fee pool as approved by shareholders from time to time. Independent remuneration consultants are employed periodically to provide advice and, where an increase is recommended, this is put to shareholders at the subsequent AGM. The current maximum aggregate fee pool is \$650,000 inclusive of superannuation per annum and was last voted upon by shareholders at the 2013 AGM. Director's individual fees did not increase in 2018 and the Board does not intend to seek a change to the fee pool at the 2018 AGM.

The base annual fee for the Chairman is \$187,223 per annum including superannuation. Base fees for other non-executive directors are \$93,611 per annum including superannuation. The Chair of the Audit, Risk & Compliance Committee was paid an annual fee of \$16,425 until the Committee was split at 1 February 2018. Following 1 February 2018, the Chairs of the Audit Committee and the Risk & Compliance Committee will receive an annual fee of \$10,950 inclusive of superannuation and the annual fee for chairing the Remuneration & Nomination Committee will continue at \$10,950 inclusive of superannuation.

Non-executive directors do not receive performance-related remuneration. The Chairman of the Audit, Risk & Compliance Committee received an additional fee of \$16,425 for the significant extra duties undertaken. Non-executive directors are not entitled to any additional remuneration upon retirement. Out-of-pocket expenses are reimbursed to directors upon the production of proper documentation.

Name	Year	Salary and fees	Superannuation	Total
David Foster	2018 (i)	123,071	11,692	134,763
	2017	100,490	9,546	110,036
Joycelyn Morton	2018 (i)	158,814	15,087	173,901
	2017	170,980	16,243	187,223
Stephen Kulmar	2018	95,490	9,071	104,561
	2017	95,490	9,071	104,561
Andrew Stevens	2018	86,913	8,257	95,170
	2017	85,490	8,122	93,612
Belinda Gibson	2018	86,913	8,257	95,170
	2017(ii)	62,802	5,966	68,768
Peter Henley	2018	-	-	-
	2017(iii)	35,182	3,342	38,524
Total Non-Executive Director Remuneration	2018	551,201	52,364	603,565
	2017	550,434	52,290	602,724

(i) Ms Morton stepped down as Chairman and Mr Foster was elected Chairman on 1 February 2018.

(ii) Ms Gibson was appointed as a director on 1 July 2016.

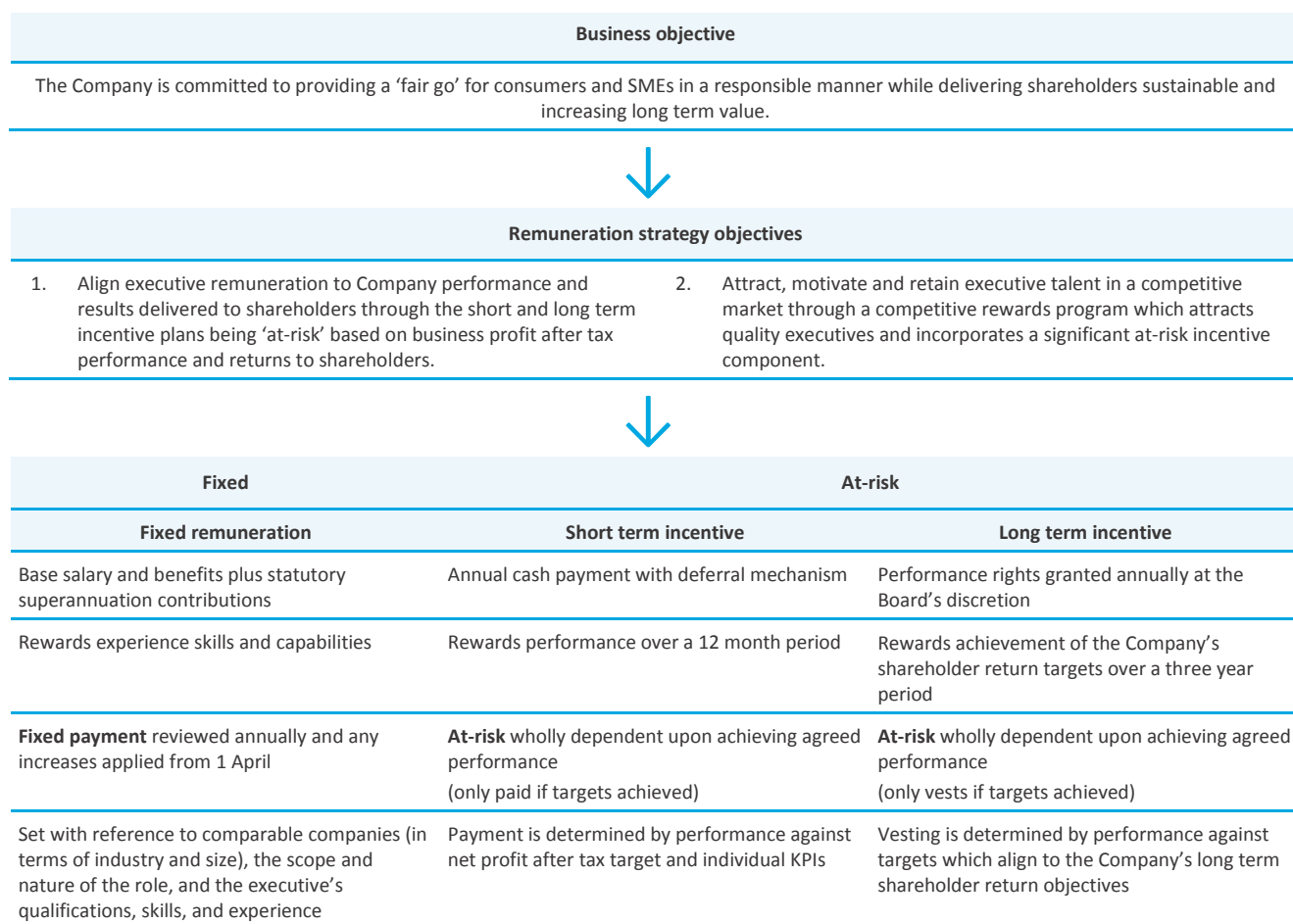
(iii) Mr Henley retired on 23 August 2016.

4. EXECUTIVE KMP REMUNERATION - AUDITED

The Company's approach to remuneration is framed by the strategy and operational demands of the business, the desire for superior sustained shareholder returns, the complex and onerous regulatory environment and high standards of governance.

The remuneration structure has been designed to balance both shareholder and executive interests. It consists of a mix of fixed and 'at-risk' pay where the at-risk element seeks to balance both short and long term performance.

The diagram below illustrates the link between the business' objective and executive KMP remuneration.



Summary of executive KMP remuneration outcomes on a statutory basis – audited

Name	Year	Salary	Termination	STI	Other remuneration ^(a)	Superannuation	Long Service Leave	LTI ^(b)	Total
Executive KMP									
Tim Luce	2018	67,784	-	-	88,173	5,012	-	-	160,969
	2017	-	-	-	-	-	-	-	-
Peter Forsberg	2018	591,480	-	-	130,436	19,563	-	(19,089)	722,390
	2017	390,404	-	162,539	-	19,533	-	51,239	623,715
Wendy Yip	2018	329,676	-	-	75,905	19,563	-	(20,353)	404,791
	2017	285,997	-	134,641	-	19,533	-	40,821	480,992
David Lines	2018	210,702	-	-	75,905	10,024	-	11,887	308,518
	2017	-	-	-	-	-	-	-	-
Former KMP's									
Matt Ingram	2018	381,656	339,581	-	-	19,563	-	(77,419)	663,381
	2017	353,106	-	129,597	-	19,533	-	48,244	550,480
James Marshall	2018	427,279	-	-	-	13,220	2,893	(223,775)	219,617
	2017	603,583	-	-	-	20,275	38,242	110,757	772,857
Peter Ryan	2017	334,036	-	-	37,500	19,533	-	(15,869)	375,200
Total KMP	2018	2,008,577	339,581	-	370,419	86,945	2,893	(328,749)	2,479,666
Remuneration	2017	1,967,126	-	426,777	37,500	98,407	38,242	235,192	2,803,244

Please refer to the employment period in the KMP section for details of the period during which the executives were employed and the roles they held (including acting positions).

Notes

- Other incentives includes benefits attributed to Mr Luce for his sign on bonus of \$1million of shares at the 5 day VWAP before his joining date of 15 February 2018 in two tranches, one with a one year vesting period and one with a two year vesting period, and retention payment accruals to the individuals set out below.
- The LTI represents the accounting charge recognised in the Company's profit and loss account in respect of the long term incentive plan. The charge reflects the fair value of the performance rights calculated at the date of grant using a Monte Carlo simulation model and allocated to each reporting period over the period from grant date to the expected vesting date. The value disclosed is the portion of the fair value of the performance rights allocated to this reporting period. Where grants lapse due to the failure or anticipated failure to achieve non-market condition hurdles then the expense previously recognised can be reversed and result in a negative entry in this column.

Retention payments

During the year, the board recognised that retaining the services of several of its key executives was essential to the ongoing success of the Group and accordingly a retention offer was made to those executives. The offer rewards continued employment to 1 September 2018 with shares to the value of \$200,000 for Peter Forsberg and \$120,000 each for Wendy Yip and David Lines with the value of the shares having been fixed at the 5 day VWAP before 1 December 2017. The board retains the right to award cash as an alternative payment mechanism. These proposed payments are being accrued over the time period and are reflected in the remuneration table above. Further retention payment arrangements have been entered into subsequent to the year end with Mr Forsberg, Ms Yip and Mr Lines amounting to a combined \$230,000.

Remuneration mix

The table below represents the target remuneration mix for group executives in the current year:

	Fixed remuneration	At risk	
		Short term incentive	Long term incentive
KMP	50%	25%	25%

Fixed remuneration

Fixed remuneration consists of a base salary and benefits plus statutory superannuation contributions. The fixed remuneration is set with reference to the market, the scope and nature of the role, and the executive's qualifications, skills, performance and experience. In certain cases, the Board may determine that it is appropriate to stretch fixed annual compensation in order to attract critical talent where necessary.

Fixed remuneration is reviewed annually and any increase applied from 1 April. The Board may also approve adjustments during the year as recommended by the CEO such as those arising from promotion or the undertaking of additional duties.

The benchmark peer group against which the remuneration packages are compared consists of companies within the ASX300 with market characteristics of between 50% and 200% of that of Thorn Group. Independent expert advice may be sought by the Remuneration & Nomination Committee to assist in that exercise.

Short term incentive

The short term incentive ("STI") is an annual cash payment subject to achieving performance criteria based both on financial and non-financial key performance indicators. There is a target level of payment with an additional stretch component available for out-performance. The Board has 100% discretion in all matters.

Features	Description										
Purpose	To motivate executives to achieve the short term performance targets.										
Opportunity	<table border="1"> <thead> <tr> <th></th> <th>Target (as % of Fixed)</th> <th>Maximum (as % of Fixed)</th> </tr> </thead> <tbody> <tr> <td>KMP</td> <td>50%</td> <td>100%</td> </tr> </tbody> </table>		Target (as % of Fixed)	Maximum (as % of Fixed)	KMP	50%	100%				
	Target (as % of Fixed)	Maximum (as % of Fixed)									
KMP	50%	100%									
Performance Period	12 months										
Gateway and performance metrics	<p>The STI is subject to a Profit After Tax 'PAT' gateway below which no STI payments are made. The maximum STI that can be earned is based on PAT against budget as follows:</p> <table border="1"> <thead> <tr> <th>Company PAT against budget</th> <th>STI that can be earned</th> </tr> </thead> <tbody> <tr> <td><85%</td> <td>0%</td> </tr> <tr> <td>85%</td> <td>42.5%</td> </tr> <tr> <td>100%</td> <td>50%</td> </tr> <tr> <td>110%</td> <td>100%</td> </tr> </tbody> </table> <p>Performance between these levels is rewarded on a straight line basis.</p> <p>70% of the STI that can be earned (detailed in the table above) is eligible for payment as it is based upon the financial performance against budgeted PAT with the remaining 30% dependent upon the individual's performance against their personal KPIs.</p> <p>The personal KPIs are individual to the executive's position and capacity to influence, pre-agreed with the Board, and relate to strategically important initiatives and measures for customer satisfaction, systems, risk and staff development.</p>	Company PAT against budget	STI that can be earned	<85%	0%	85%	42.5%	100%	50%	110%	100%
Company PAT against budget	STI that can be earned										
<85%	0%										
85%	42.5%										
100%	50%										
110%	100%										
Assessment, approval and payment	<p>At the end of the financial year, the Remuneration & Nomination Committee assesses actual financial performance based on the Company's audited financial statements, and each executive's performance against their personal KPIs to determine the value of each executive's STI reward.</p> <p>The Board has 100% discretion with the STI outcome including the exercising of judgement with regard to any matter, both positive and negative, that may have occurred during the financial period and to adjust the levels of achievement accordingly.</p> <p>Once approved, the STI rewards are paid in the month following the release of the Company's results to the ASX.</p>										

DIRECTORS' REPORT

For the year ended 31 March 2018

Features	Description
Deferral	<p>For the 2017 financial year a deferral mechanism was introduced whereby 15% of the awarded STI is deferred for one year and subject to forfeiture under two conditions, first should a material misstatement or omission in the financial statements become apparent, or second the executive acts in a manner unbecoming of the office held. This deferral percentage will be 30% in the 2019 year.</p> <p>The deferred portion is subject to an election by the KMP as to its method of payment. It can be paid in cash one year later, subject to the restrictions stated, and will earn interest at a suitable deposit rate for that period, or it can be converted into performance share rights at a VWAP for the 5 days prior to the payment date of the initial tranche and receive an uplift by a dividend equivalent for any dividends declared during the deferral period. The performance rights will then be converted to shares on the due date and awarded to the KMP.</p>

STI OUTCOMES FOR 2018 - AUDITED

The Company reported a loss after tax of \$(3.6)m and a cash profit (before goodwill impairment) of \$17.0m. This level of profit did not qualify as sufficient to pass the PAT gateway in the above table and accordingly no STI's were awarded.

STI for 2017-18	Target \$	Earned %	Earned \$	Forfeited %	Forfeited \$
Tim Luce	41,610	0%	-	100%	41,610
Peter Forsberg	322,500	0%	-	100%	322,500
Wendy Yip	175,000	0%	-	100%	175,000
David Lines	175,000	0%	-	100%	175,000
Total	714,110	0%	-	100%	714,110

Long Term Incentive (LTI)

The Long Term Incentive is an annual performance rights plan to which executive KMP are invited to participate at the Board's discretion.

The Company currently has three active LTI plans running which share the same method but differ slightly in their hurdles and vesting criteria detailed in the table below. All of the plans were granted in the form of performance rights directly linked to the performance of the Company, the returns generated, and relative increases in shareholder wealth. This structure was used to ensure appropriate alignment to shareholder value over a specified timeframe.

The following table sets out the key features of the plans with specific references to each of the 2015, 2016 and 2017 plans where they differ.

Features	Description								
Instrument	Performance rights being a right to receive a share subject to performance and vesting conditions.								
Purpose	To motivate executives to achieve the long term performance targets.								
Opportunity	<p>50% of fixed remuneration</p> <p>The number of performance rights issued is determined by dividing the dollar opportunity by the prevailing share price of the Company at the date of issue.</p>								
Dividends or share issues	No dividends are paid or accrued on unvested awards.								
Gateway Hurdle	<p>Gateway hurdles of the grants across relevant measurement periods are as follows:</p> <table border="1"> <thead> <tr> <th>Plan</th> <th>Gateway</th> </tr> </thead> <tbody> <tr> <td>April 2015</td> <td>16.0% Return on equity</td> </tr> <tr> <td>July 2016</td> <td>No gateway hurdle</td> </tr> <tr> <td>July 2017</td> <td>No gateway hurdle</td> </tr> </tbody> </table>	Plan	Gateway	April 2015	16.0% Return on equity	July 2016	No gateway hurdle	July 2017	No gateway hurdle
Plan	Gateway								
April 2015	16.0% Return on equity								
July 2016	No gateway hurdle								
July 2017	No gateway hurdle								

DIRECTORS' REPORT

For the year ended 31 March 2018

Features	Description																		
	<p>The April 2015 plan uses a Relative Total Shareholder Return ("RTSR") performance hurdle solely while the July 2016 and July 2017 plans have two performance hurdles in equal tranches being the RTSR and an Earnings Per Share ("EPS") hurdle.</p> <p>The company's Relative Total Shareholder Return performance is measured against a comparator group of ASX listed companies (available on the website at www.thorn.com.au).</p> <p>RTSR was selected as an objective indicator of shareholder wealth criterion as it includes share price growth, dividends and other capital adjustments.</p>																		
	<table border="1"> <thead> <tr> <th colspan="2">Thorn Group Limited's TSR Ranking</th> <th>Percentage of Performance Rights subject to TSR condition that qualify for vesting</th> </tr> <tr> <th>April 2015 Grant</th> <th>July 2016 and July 2017 Grants</th> <th></th> </tr> </thead> <tbody> <tr> <td>< 50th percentile</td> <td>< 50th percentile</td> <td>0%</td> </tr> <tr> <td>50th percentile</td> <td>50th percentile</td> <td>50%</td> </tr> <tr> <td>50th to 90th percentile</td> <td>50th to 75th percentile</td> <td>Assessed on a straight line basis</td> </tr> <tr> <td>90th percentile or greater</td> <td>75th percentile or greater</td> <td>100%</td> </tr> </tbody> </table>	Thorn Group Limited's TSR Ranking		Percentage of Performance Rights subject to TSR condition that qualify for vesting	April 2015 Grant	July 2016 and July 2017 Grants		< 50 th percentile	< 50 th percentile	0%	50 th percentile	50 th percentile	50%	50 th to 90 th percentile	50 th to 75 th percentile	Assessed on a straight line basis	90 th percentile or greater	75 th percentile or greater	100%
Thorn Group Limited's TSR Ranking		Percentage of Performance Rights subject to TSR condition that qualify for vesting																	
April 2015 Grant	July 2016 and July 2017 Grants																		
< 50 th percentile	< 50 th percentile	0%																	
50 th percentile	50 th percentile	50%																	
50 th to 90 th percentile	50 th to 75 th percentile	Assessed on a straight line basis																	
90 th percentile or greater	75 th percentile or greater	100%																	
	<table border="1"> <thead> <tr> <th colspan="2">Thorn Group Limited's EPS Hurdle</th> <th>Percentage of Performance Rights subject to EPS condition that qualify for vesting</th> </tr> <tr> <th colspan="2">July 2016 and July 2017 Grants</th> <th></th> </tr> </thead> <tbody> <tr> <td colspan="2">< 5% compound annual growth rate</td> <td>0%</td> </tr> <tr> <td colspan="2">5% to 10%</td> <td>Assessed on straight line basis</td> </tr> <tr> <td colspan="2">= or > 10% CAGR</td> <td>100%</td> </tr> </tbody> </table>	Thorn Group Limited's EPS Hurdle		Percentage of Performance Rights subject to EPS condition that qualify for vesting	July 2016 and July 2017 Grants			< 5% compound annual growth rate		0%	5% to 10%		Assessed on straight line basis	= or > 10% CAGR		100%			
Thorn Group Limited's EPS Hurdle		Percentage of Performance Rights subject to EPS condition that qualify for vesting																	
July 2016 and July 2017 Grants																			
< 5% compound annual growth rate		0%																	
5% to 10%		Assessed on straight line basis																	
= or > 10% CAGR		100%																	
Performance period and vesting dates	<ul style="list-style-type: none"> April 2015: 3 years (1 April 2015 to 31 March 2018). Vesting date is 1 June 2018. July 2016: 3 years (1 July 2016 to 30 June 2019). Vesting date is 1 September 2019. July 2017: 3 years (1 July 2017 to 30 June 2020). Vesting date is 1 September 2020. 																		
Assessment, approval and payment	<p>At the end of each performance period, the Remuneration & Nomination Committee assesses the relevant performance measures and determines the extent to which the awards should vest.</p> <p>Payment is made by the issuing or transfer of shares.</p>																		
Change of control	<p>If a change of control occurs prior to the vesting of an award, then the Board may determine in its absolute discretion whether all or some of a participant's unvested award vest, lapse, is forfeited, or continues.</p>																		
Termination	<p>Unvested performance rights will lapse if performance conditions are not met. Performance rights will be forfeited on cessation of employment unless the Board determines at its absolute discretion otherwise.</p>																		
Claw back provisions	<p>There are no specific provisions providing the capacity to clawback a component of remuneration in the event of a matter of significant concern.</p>																		

Calculation of the value of performance rights in the remuneration tables

The value of performance rights issued to executives and included in the remuneration tables is a mathematical model calculation designed to show an intrinsic value. This is necessary to show the benefit attributable to the KMP in the year of issue but before that benefit is actually received by the KMP.

The number of performance rights to be issued is derived from the relevant percentage of the executive's fixed remuneration at the time of the grant divided by the share price at that time. This number of performance rights is then input into a Monte Carlo simulation model by an independent expert and which works out the intrinsic value of the performance rights using the expected volatility of the shares, the time period to testing date, and a number of other monetary factors as set out in the table below.

The end result is an intrinsic value for each of the performance rights which is recorded in the books of the Company by allocating the expense to each reporting period evenly over the period from grant date to the vesting date.

The table below outlines the factors and assumptions used in determining the fair value of performance rights at grant date.

DIRECTORS' REPORT

For the year ended 31 March 2018

Grant date	Initial Test date	Expiry Date	Fair Value Per Performance Right	Exercise Price	Price of Shares on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
31 October 2015	1 June 2018	31 July 2018	\$0.81	Nil	\$2.12	31.0%	1.8%	6.4%
1 July 2016	1 September 2019	31 October 2019	\$0.97	Nil	\$1.45	33.0%	1.4%	5.9%
1 July 2017	1 September 2020	31 October 2020	\$1.00	Nil	\$1.42	37.0%	1.9%	5.3%

Long term incentive outcomes for 2018

The LTI plans have been designed to align to shareholder outcomes for earnings and share price. As the performance of the Company has fallen over the past three years, these plans have also fallen with the 2012 plan failing to meet its hurdles and all performance rights lapsing.

Performance rights granted as compensation in the year

	Performance Rights Granted		Financial Year in which Grants Vest (ended 31 March)	Values Yet to Vest \$	
	Number	Date		Min (a)	Max (b)
Tim Luce	598,803	15 February 2018	2019	Nil	-
	598,803	15 February 2018	2020	Nil	-
Peter Forsberg	233,476	1 July 2017	2020	Nil	-
	298,855	22 December 2017	2019	Nil	-
Wendy Yip	126,692	1 July 2017	2021	Nil	-
	173,913	22 December 2017	2019	Nil	-
David Lines	126,692	1 July 2017	2021	Nil	-
	173,913	22 December 2017	2019	Nil	-

- The minimum value of the performance rights to vest is nil as the performance rights criteria may not be met and consequently the performance rights may not vest.
- The maximum value of the performance rights yet to vest is not accurately determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the performance rights are exercised.

5. ALIGNMENT BETWEEN REMUNERATION AND PERFORMANCE – AUDITED

In considering the consolidated entity's performance and benefits for shareholders' wealth, the Board have regard to the following indices in respect of the current financial year and the four previous financial years.

Year ending 31 March	2018	2017	2016	2015	2014
Profit After Tax (AUD millions)	(3.6)	25.3	20.1	30.6	28.2
Earnings per share (cents)	(2.3)	16.2	13.1	20.3	18.9
Dividends per share (cents)	1.0	8.0	11.5	11.75	10.5
Share price at year end (\$)	0.62	1.31	1.82	2.67	2.15
Return on capital employed %	n/a	11.0	11.1	18.5	21.8
Return on equity %	n/a	12.4	10.4	16.9	17.2

Return on capital employed is calculated as EBIT divided by average capital employed (net debt plus book equity). Return on equity is calculated as NPAT divided by the average book equity.

6. SERVICE CONTRACTS FOR EXECUTIVE KMP - AUDITED

The present contractual arrangements with executive KMPs are:

Component	CEO	Senior executives
Contract duration	Ongoing	Ongoing
Notice by individual or company	6 months	Range between 3 and 6 months
Termination without cause	Entitlement to pro-rata STI for the year. Unvested LTI is forfeited unless the board decide at its absolute discretion otherwise. Board has discretion to award a greater or lesser amount.	
Termination with cause	STI is not awarded and all unvested LTI will lapse Vested and exercised LTI can be exercised within a period of 30 days from termination	

7. OTHER STATUTORY DISCLOSURES - AUDITED

LTI and Other performance rights available for vesting

Details of the LTI and other performance rights available for vesting are detailed below:

	Initial Grant			Financial Years in Which Grant Vests (ending 31 March)	Remaining Unvested Number	Values Yet to Vest \$		2018 Movements on original grant		
	Type	Number	Date			Min (a)	Max (b)	Vested	Forfeited	Unvested
Tim Luce	Sign-on	598,803	15 Feb 2018	2019	598,803	Nil	-	-	-	100%
	Sign-on	598,803	15 Feb 2018	2020	598,803	Nil	-	-	-	100%
Peter Forsberg	LTI	72,257	31 Oct 2015	2019	Nil	Nil	Nil	-	100%	-
	LTI	143,346	1 Jul 2016	2020	143,346	Nil	-	-	-	100%
	LTI	233,476	1 Jul 2017	2021	233,476	Nil	-	-	-	100%
	Retention	298,855	1 Dec 2017	2019	298,855	Nil	-	-	-	100%
Wendy Yip	LTI	56,692	31 Oct 2015	2019	Nil	Nil	Nil	-	100%	-
	LTI	115,180	1 Jul 2016	2020	115,180	Nil	-	-	-	100%
	LTI	126,692	1 Jul 2017	2021	126,692	Nil	-	-	-	100%
	Retention	173,913	1 Dec 2017	2019	173,913	Nil	-	-	-	100%
David Lines	LTI	126,692	1 Jul 2017	2021	126,692	Nil	-	-	-	100%
	Retention	173,913	1 Dec 2017	2019	173,913	Nil	-	-	-	100%
Matt Ingram	LTI	34,150	1 Jul 2014	2018	-	Nil	Nil	-	100%	-
	LTI	30,271	31 Oct 2015	2019	-	Nil	Nil	-	100%	-
	LTI	130,430	1 Jul 2016	2020	-	Nil	Nil	-	100%	-
James Marshall	LTI	63,291	7 Dec 2012	2015-18	Nil	Nil	Nil	-	100%	-
	LTI	63,291	7 Dec 2012	2016-18	Nil	Nil	Nil	-	100%	-
	LTI	63,291	7 Dec 2012	2017-18	Nil	Nil	Nil	-	100%	-
	LTI	66,556	1 Jul 2014	2018	Nil	Nil	Nil	-	100%	-
	LTI	103,695	1 Jul 2015	2019	Nil	Nil	Nil	-	100%	-
	LTI	218,410	1 Jul 2016	2020	Nil	Nil	Nil	-	100%	-

- The minimum value of the performance rights to vest is nil as the performance rights criteria may not be met and consequently the performance rights may not vest.
- The maximum value of the performance rights yet to vest is not accurately determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the performance rights are exercised. However, for the purposes of this disclosure as the value of the shares at vesting date is not known, the maximum has not been disclosed and shown as '-'.

DIRECTORS' REPORT

For the year ended 31 March 2018

Performance rights over equity instruments granted

The movement during the year in the number of performance rights over ordinary shares in Thorn Group Limited held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Held at 1 April 2017	Granted as Compensation	Vested during the year	Lapsed	Forfeited	Held at 31 March 2018
Tim Luce	-	1,197,606	-	-	-	1,197,606
Peter Forsberg	215,603	532,331	-	-	(72,257)	675,677
Wendy Yip	171,872	300,605	-	-	(56,692)	415,785
David Lines	-	300,605	-	-	-	300,605
Matt Ingram	194,851	-	-	-	(194,851)	-
James Marshall	538,661	-	-	-	(538,661)	-

Shareholdings of the directors and executive KMP

2018 Name	Balance at the start of the year	Received on vesting of incentives	Other changes (bought and sold)	Balance at the end of the year
David Foster	26,970	-	33,300	60,270
Joycelyn Morton	91,994	-	3,125	95,119
Stephen Kulmar	68,000	-	-	68,000
Andrew Stevens	15,720	-	-	15,720
Belinda Gibson	-	-	20,000	20,000
Tim Luce	-	-	-	-
Peter Forsberg	10,000	-	25,000	35,000
Wendy Yip	-	-	10,000	10,000
David Lines	-	-	-	-
Matt Ingram	-	-	-	-
James Marshall	181,543	-	(171,543)	10,000

Other transactions with Directors or Executive KMP

There were no loans made or outstanding to Directors or executive KMP during or at the end of the year.

A director, Stephen Kulmar, is the founder of the retail consultancy Retail Oasis, which has the Company as one of its clients. During the year there were no engagements nor fees billed for services rendered but the Company reimbursed Retail Oasis \$8,860 for costs incurred on behalf of Thorn employees. Accordingly Mr Kulmar is considered an independent director.

LIKELY DEVELOPMENTS

For further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, please refer to the Operating and Financial Review.

UNISSUED SHARES UNDER OPTIONS

At the date of this report there are no unissued ordinary shares of the Company under option.

DIRECTORS' REPORT

For the year ended 31 March 2018

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company to ensure they do not impact the integrity and objectivity of the auditor;
- the non-audit services provided do not undermine the general principles relating to auditor independence; and
- as set out in APES110 Code of Ethics for Professional Accountants, they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the consolidated entity, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 21.

ROUNDING OF FINANCIAL AMOUNTS

The Company is of a kind referred to in ASIC Instrument 2016/191 issued by the Australian Securities and Investments

Commission and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year and can be referred to on Thorn Group website <http://www.thorn.com.au/irm/content/corporate-governance.aspx?RID=303>.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration is set out on page 22 and forms part of the directors' report for financial year ended 31 March 2018.

This report is made in accordance with a resolution of the directors:



David Foster
Chairman

Dated at Sydney
30 May 2018



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

To the Directors of Thorn Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Thorn Group Limited for the financial year ended 31 March 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Travers
Partner

Sydney

30 May 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

\$'000 AUD	Notes	2018	2017
Continuing operations			
Revenue	3	236,193	277,597
Finance lease cost of sales		(55,635)	(84,013)
Employee benefit expense	19	(50,062)	(54,678)
Impairment losses on loans and receivables		(30,695)	(24,650)
Marketing expenses		(11,226)	(13,228)
Property expenses		(10,566)	(9,706)
Transport expenses		(5,611)	(5,856)
Communication & IT expenses		(6,080)	(5,774)
Travel expenses		(1,450)	(1,779)
Printing, stationery and postage		(2,272)	(2,675)
Other expenses		(17,524)	(19,770)
Depreciation & amortisation		(9,422)	(14,666)
Impairment of intangibles		(20,658)	-
Total operating expenses		(221,201)	(236,795)
Earnings before interest and tax ("EBIT")		14,992	40,802
Finance expenses		(15,681)	(9,478)
Profit before income tax		(689)	31,324
Income tax	8	(5,774)	(10,312)
(Loss)/profit after tax from continuing operations*		(6,463)	21,012
Discontinued operations			
Profit from discontinued operations, net of tax	18	2,839	4,296
(Loss)/profit after tax for the year		(3,624)	25,308
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Movement in fair value of cash flow hedges		193	(546)
Total comprehensive income		(3,431)	24,762
Earnings per share - continuing operations			
Basic earnings per share (cents)	14	(4.06)	13.45
Diluted earnings per share (cents)	14	(4.06)	13.45
Earnings per share			
Basic earnings per share (cents)	14	(2.28)	16.20
Diluted earnings per share (cents)	14	(2.28)	16.20

* Restated to redirect the results of discontinued businesses, into one line above (Loss)/profit after tax. For details see note 18.
The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

\$'000 AUD	Note	2018	2017
Assets			
Cash and cash equivalents		28,227	14,681
Trade and other receivables	4	173,257	185,578
Income tax receivable		-	5,916
Total current assets		201,484	206,175
Trade and other receivables	4	330,978	307,397
Property, plant and equipment		4,386	5,058
Rental assets	6	6,979	6,651
Intangible assets	7	4,779	24,322
Total non-current assets		347,122	343,428
Total assets		548,606	549,603
Liabilities			
Trade payables		10,377	12,011
Income tax payable		3,099	-
Other payables		23,202	23,121
Loans and borrowings	12	77,348	46,904
Employee benefits		5,050	5,414
Provisions	11	7,459	9,037
Total current liabilities		126,535	96,487
Loans and borrowings	12	206,960	229,559
Deferred tax liabilities	9	11,265	12,163
Employee benefits		481	309
Provisions	11	487	847
Total non-current liabilities		219,193	242,878
Total liabilities		345,728	339,365
Net assets		202,878	210,238
Equity			
Issued capital		117,102	115,340
Reserves		3,030	2,979
Retained earnings		82,746	91,919
Total equity		202,878	210,238

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

\$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2016	109,854	3,188	84,491	197,533
Net profit for the period	-	-	25,308	25,308
Other comprehensive income	-	(546)	-	(546)
Issue of shares under dividend reinvestment plan	5,486	-	-	5,486
Share based payments transactions	-	337	-	337
Dividends to shareholders	-	-	(17,880)	(17,880)
Balance at 31 March 2017	115,340	2,979	91,919	210,238
Balance at 1 April 2017	115,340	2,979	91,919	210,238
Net loss for the period	-	-	(3,624)	(3,624)
Other comprehensive income	-	193	-	193
Issue of shares under dividend reinvestment plan	1,762	-	-	1,762
Share based payments transactions	-	(142)	-	(142)
Dividends to shareholders	-	-	(5,549)	(5,549)
Balance at 31 March 2018	117,102	3,030	82,746	202,878

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

\$'000 AUD	Note	2018	2017*
Cash flows from operating activities			
Cash receipts from customers		784,696	621,320
Cash paid to suppliers and employees		(544,664)	(425,366)
Acquisition of rental assets	6	(54,194)	(81,889)
Equipment finance originations		(208,827)	(178,462)
Cash generated from operations		(22,989)	(64,397)
Net borrowing costs		(15,681)	(9,478)
Income tax refund / (paid)		803	(9,118)
Net cash used in operating activities		(37,867)	(82,993)
Cash flows from investing activities			
Proceeds from sale of assets		-	175
Acquisition of property, plant and equipment and software		(3,895)	(3,933)
Net cash received on sale of subsidiaries	18	51,249	21,185
Net cash from investing activities		47,354	17,427
Cash flows from financing activities			
Proceeds from borrowings		189,458	166,333
Repayment of borrowings		(181,612)	(87,743)
Dividends paid		(3,787)	(12,392)
Net cash from financing activities		4,059	66,198
Net increase in cash and cash equivalents		13,546	632
Cash and cash equivalents at April 1		14,681	14,049
Cash and cash equivalents at 31 March		28,227	14,681

* **Presentation of the statement of cash flows**

The Group has made a voluntary change in accounting policy and accordingly amended the presentation of the statement of cash flows to reclassify acquisition of rental assets and equipment finance originations from investing activities to operating activities. This has also been reflected in the comparative. Had this change not occurred the operating cash flow in 2018 would have been \$225,154,000 and in 2017 \$177,358,000. The investing cash flow in 2018 would have been \$(215,667,000) and in 2017 \$(242,924,000). There has been no change in the fundamentals of the cash received or paid other than disclosure.

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

Cash and cash equivalents

\$'000 AUD	2018	2017
Bank balances	28,227	14,681
Call deposits	-	-
Cash and cash equivalents	28,227	14,681

Included in cash is an amount of \$19,845,000 (2017: \$8,043,000) held as part of the consolidated entity's funding arrangements that are not available to the consolidated entity. This cash is held within the funding warehouse trust and as such is under the control of the Trustee. Free cash is therefore \$8,382,000 (2017: \$6,638,000).

Reconciliation of cash flows from operating activities

\$'000 AUD	2018	2017
Profit after tax	(3,624)	25,308
Adjustments for:		
Depreciation, amortisation and goodwill impairment	30,268	14,843
Equity settled transactions	(142)	337
(Profit)/loss before tax on sale of subsidiary	(512)	1,033
Loss on disposal of rental assets	98	1,559
Operating profit before changes in working capital and provisions	26,088	43,080
Changes in working capital and provisions, net of the effects of the sale of subsidiaries		
(Increase) in trade and other receivables	(49,449)	(136,773)
(Increase) in rental assets	(4,050)	(5,688)
(Decrease)/increase in deferred tax liability	(1,222)	10,300
Decrease/(increase) in income tax receivables	9,015	(553)
(Decrease) in trade and other payables	(16,122)	(2,167)
(Decrease)/increase in provisions and employee benefits	(2,127)	8,808
Net cash from operating activities	(37,867)	(82,993)

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Thorn Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 1, 62 Hume Highway, Chullora, NSW, 2190. The consolidated financial statements of the Company as at and for the financial year ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity'). The principal activities of the consolidated entity were the leasing of household products, the provision of loans, commercial finance and the provision of receivables management services.

(a) Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ('IFRSs') adopted by the International Accounting Standards Board ('IASB').

The consolidated financial statements were approved by the Board of Directors on 30 May 2018.

(b) Basis of Preparation

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The consolidated financial statements have been prepared on the historical cost.

The Company is of a kind referred to in ASIC Instrument 2016/191 issued by the Australian Securities and Investments Commission and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include the following:

- (i) Valuation of goodwill and other intangibles. See note 7.
- (ii) Impairment of goodwill. See note 7.
- (iii) Longer term Consumer Rental asset depreciation. See note 6.
- (iv) Impairment of receivables. See note 10.

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if:

- (i) The amount is significant because of its size or nature;
- (v) It is important for understanding the results of the Group or changes in the Group's business; and
- (vi) It relates to an aspect of the Group's operations that is important to its future operations.

Accounting Policies

Accounting policies have been included within the underlying notes with which they relate where possible. The balance of accounting policies are detailed below:

(c) Cost of Sales

Finance lease costs of sales comprise the cost of the item sold less any accumulated depreciation.

(d) Finance expenses

Finance expenses comprise interest expense on borrowings, interest rate hedge costs and the amortisation of deferred borrowing costs. All borrowing costs are recognised in the profit or loss using the effective interest rate method.

(e) Impairment

Non-Financial Assets

The carrying amounts of the consolidated entity's assets, other than deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill the recoverable amount was estimated at each balance date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating units"). The goodwill acquired in a business combination, for the purpose of impairment testing, is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Financial Assets

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of receivables that are not assessed as impaired individually is performed by placing them into portfolios with similar risk profiles and undertaking a collective assessment of impairment, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

Reversals of Impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from

investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(g) Changes in Accounting Policy

All new Accounting Standards and Interpretations applicable to annual reporting periods commencing on or before 1 April 2017 have been applied to the consolidated entity effective from their required date of application. The initial application of these Standards and Interpretations has not had a material impact on the financial position or the financial results of the consolidated entity.

Presentation of cashflow comparatives

The Group has made a voluntary change in accounting policy and accordingly amended the presentation of the statement of cash flows to reclassify acquisition of rental assets and equipment finance originations from investing activities to operating activities. This has also been reflected in the comparative. Had this change not occurred the operating cash flow in 2018 would have been \$225,154,000 and in 2017 \$177,358,000. The investing cash flow in 2018 would have been \$(215,667,000) and in 2017 \$(242,924,000). There has been no change in the fundamentals of the cash received or paid other than disclosure.

(h) New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated entity in the period of initial application.

AASB 9 and AASB 15 are effective 1 April 2018 and earlier application is permitted; however, the consolidated entity has not early adopted the new or amended standards in preparing these consolidated financial statements.

The consolidated entity will apply the standard and amendments for the reporting periods beginning on the operative dates. The anticipated financial impact of applying these new standards is detailed below. The consolidated entity does not plan to adopt these standards early.

AASB 9 Financial Instruments

AASB 9 was issued in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement (AASB 139)* and includes requirements for impairment, classification and measurement and general hedge accounting.

Impairment

AASB 9 replaces the incurred loss model under AASB139 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, lease receivables, and certain loan commitments and financial guarantees. Under AASB 9, a three-stage approach is applied to measuring expected credit losses ('ECL') based on credit migration between the stages as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.

Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.

Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under AASB 9: Amortised cost, fair value through profit or loss ('FVTPL') and, for financial assets, fair value through other comprehensive income ('FVOCI'). Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under AASB 9 are largely consistent with AASB 139 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the consolidated entity's own credit risk are included in other comprehensive income.

General hedge accounting

AASB 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

Transition and impact

AASB 9 has a date of initial application for the consolidated entity of 1 April 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The consolidated entity does not intend to restate comparatives.

AASB 9 provides an accounting policy choice to continue with AASB 139 *Hedge Accounting* given the International Accounting Standards Board's ongoing project on macro hedge accounting. The consolidated entity's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

The consolidated entity has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The impact is estimated to be an increase in the expected credit loss provision of between \$8m to \$13m which will be adjusted in opening returned earnings on initial application. This estimate is based on assessments undertaken to date, however, the consolidated entity continues to refine its assessment during the initial application period.

AASB 15 Revenue from Contracts with Customers

The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity has not early adopted AASB 15.

The consolidated entity has performed a review over its existing revenue streams and, applying the framework has not assessed any change in the quantum or timing of revenue recognition. Consequently, there is not expected to be a material impact on the consolidated entity's financial statements in the period of initial application as of 1 April 2018.

AASB 16 Leases

AASB 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective from 1 April 2019 and the consolidated entity are not early adopting this standard.

AASB 16 *Leases* removes the lease classification test and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AASB 15 Revenue from contracts with customers. The Consolidated entity is assessing the potential impact on its financial statements resulting from the application of AASB 16.

Determining whether an arrangement contains a lease

The Consolidated entity has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4, as explained in Note 27(E) (i). On transition to AASB 16, the Consolidated entity can choose whether to:

- apply the AASB 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Consolidated entity plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Transition

As a lessee, the Consolidated entity can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Consolidated entity plans to apply AASB 16 initially on 1 April 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The consolidated entity is assessing the potential impact of using these practical expedients.

The Consolidated entity is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Consolidated entity has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Consolidated entity's borrowing rate at 1 April 2019, the composition of the Consolidated entity's lease portfolio at that date, the Consolidated entity's latest assessment of whether it will exercise any lease renewal options and the extent to which the Consolidated entity chooses to use practical expedients and recognition exemptions. So far, the most significant impact identified is that the consolidated entity will recognise new assets and liabilities for its operating leases of warehouse and factory facilities. As at 31 March 2018, the consolidated entity's future minimum lease payments under non-cancellable operating leases amounted to \$22,777,000 on an undiscounted basis (see note 5).

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the consolidated entity's finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

2. SEGMENT REPORTING

The Board and CEO (the chief operating decision maker) monitor the operating results of the two reportable segments which are the Consumer Leasing division which leases household products and the Equipment Finance division which provides financial products to small and medium enterprises including equipment leasing.

Segment performance is evaluated based on operating profit or loss. Finance and income tax expense are not allocated to operating segments, as this type of activity is managed on a group basis.

The Trade & Debtor Finance and Consumer Finance businesses were sold in 2018 and Receivables Management was sold in 2017. Comparatives for 2017 have been restated to show the impact of businesses sold in 2018 on the 2017 results.

2018 \$'000 AUD	Consumer Leasing	Equipment Finance	Trade & Debtor Finance (Discontinued operation)	Consumer Finance (Discontinued operation)	Receivables Management (Discontinued in 2017)	Corporate	Consolidated
Segment revenue	196,517	39,676	9,927	3,583	-	-	249,703
Operating expenses	(162,885)	(15,278)	(8,655)	(1,123)	-	(12,958)	(200,899)
EBITDA	33,632	24,398	1,272	2,460	-	(12,958)	48,804
Depreciation, amortisation and impairment	(7,278)	(242)	(188)	-	-	(22,560)	(30,268)
EBIT	26,354	24,156	1,084	2,460	-	(35,518)	18,536
Finance expense	-	-	-	-	-	(15,681)	(15,681)
Profit before tax	26,354	24,156	1,084	2,460	-	(51,199)	2,855
Segment assets	173,121	326,247	-	-	-	49,238	548,606
Segment liabilities	(61,420)	-	-	-	-	(284,308)	(345,728)

2017 \$'000 AUD	Consumer Leasing	Equipment Finance	Trade & Debtor Finance (Discontinued in 2018)	Consumer Finance (Discontinued in 2018)	Receivables Management (Discontinued in 2017)	Corporate	Consolidated
Segment revenue	251,175	26,422	11,227	9,871	7,084	-	305,779
Operating expenses	(200,869)	(9,828)	(8,790)	(5,900)	(6,112)	(11,432)	(242,931)
EBITDA	50,306	16,594	2,437	3,971	972	(11,432)	62,848
Depreciation, amortisation and impairment	(13,964)	(480)	(110)	(21)	(97)	(222)	(14,894)
EBIT	36,342	16,114	2,327	3,950	875	(11,654)	47,954
Finance Expense	-	-	-	-	-	(9,478)	(9,478)
Profit before tax	36,342	16,114	2,327	3,950	875	(21,132)	38,476
Segment assets	193,396	239,268	45,852	21,448	-	49,639	549,603
Segment liabilities	(61,693)	-	(1,209)	-	-	(276,463)	(339,365)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Reconciliations of reportable segment to IFRS measures

\$'000 AUD	2018	2017
Revenue		
Total revenue for reportable segments	249,703	305,779
Elimination of discontinued operations	(13,510)	(28,182)
Consolidated Revenue	236,193	277,597
Profit before tax		
Total profit before tax for reportable segments	2,855	38,476
Elimination of discontinued operations	(3,544)	(7,152)
Consolidated profit before tax from continuing operations	(689)	31,324

3. REVENUE

\$'000 AUD	2018	2017
Operating leases	22,760	42,421
Finance lease sales	79,476	116,840
Interest	133,957	118,336
	236,193	277,597

Revenues are measured at the fair value of the consideration received or receivable net of the amount of goods and services tax (GST) payable to the taxation authority. The major components of revenue are recognised as follows:

- Operating lease rental revenue is recognised on a straight line basis over the lease term, net of discounts. Revenue also arises from charges such as late fees, termination fees and damage liability reduction fees. These revenues are recognised when due and payable.
- Finance lease sales revenue is recognised at the time the rental contract is entered into based on the fair value of the leased item, with interest income recognised over the life of the lease.
- Interest revenue is calculated and charged on the average outstanding loan and lease balance and recognised on an accrual basis using the effective interest method.

4. TRADE AND OTHER RECEIVABLES

\$'000 AUD	2018	2017*
Current		
Trade receivables	7,740	6,614
Finance lease receivables	128,346	108,462
Other commercial receivables	-	33,873
Loan receivables	25,834	22,272
Lease deposits	170	617
Other receivables and prepayments	11,167	13,740
	173,257	185,578
Non-current		
Finance lease receivables	276,444	279,994
Loan receivables	54,534	27,403
	330,978	307,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

* An adjustment was made to reclassify \$23.6m of lease receivables as loan receivables and which has been reflected as a restatement of 2017 balances. This has resulted in a reduction of finance lease receivables net of impairment provisioning by \$23.6m to \$388.5m and an increase of loan receivables net of impairment provisioning by \$23.6m to \$49.7m.

Finance lease receivables are recognised at the present value of the minimum lease payments less impairment losses. The present value is calculated by discounting the minimum lease payments due, at the interest rate implicit in the lease.

Trade receivables, other commercial receivables, loan receivables and other receivables and prepayments are stated at their amortised cost less impairment losses. The other commercial receivables included amounts sold as part of the businesses sold during the year as disclosed in note 18. The consolidated entity's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in note 10.

5. LEASES

Finance leases as lessor

The consolidated entity has finance lease, hire purchase agreements and chattel mortgage contracts. The consolidated entity classifies longer term Consumer Rental contracts as finance leases where the term of the contract is 24 months, 36 months or 48 months. The asset rented has an estimated useful life equal to the contract length. The future minimum lease receipts under non-cancellable finance leases are as follows:

\$'000 AUD	2018	2017*
Lease receivables - less than one year	251,504	241,137
Lease receivables - between one and five years	353,726	370,742
Total Lease receivables	605,230	611,879
Unearned interest income on finance leases - less than one year	(97,341)	(105,875)
Unearned interest income on finance leases - between one and five years	(78,015)	(91,110)
Total unearned interest income on finance leases	(175,356)	(196,985)
Impairment provisioning	(25,084)	(26,438)
Net Lease receivables	404,790	388,456

* Certain 2017 balances have been restated. Refer to Note 4 for further details

Operating leases as lessor

The consolidated entity leases out its rental assets under operating leases. The future minimum lease receipts under non-cancellable operating leases are as follows:

\$'000 AUD	2018	2017
Less than one year	2,377	3,408
Between one and five years	225	886
	2,602	4,294

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

\$'000 AUD	2018	2017
Less than one year	8,968	7,487
Between one and five years	13,809	10,831
	22,777	18,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

The consolidated entity leases all store and office premises under operating leases. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date. The majority of the lease payments are increased every year to reflect market rentals.

The consolidated entity also leases vehicles under operating leases. The lease term for these vehicles normally runs for a period of 4 years. The lease payments are set at the commencement of the lease for the term of the lease. The lease agreements for vehicles do not include contingent rentals.

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the total lease expense and spread over the lease term.

Operating lease rental expenditure for the year ended 31 March 2018 was \$11,302,000 (2017: \$11,229,000).

6. RENTAL ASSETS

\$'000 AUD	2018	2017
Opening balance	6,651	13,809
Acquisitions	54,194	81,889
Disposals	(98)	(1,559)
Depreciation	(6,240)	(11,740)
Transfers to finance leases	(55,362)	(85,237)
Transfers from finance leases	7,834	9,489
	6,979	6,651

Recognition and measurement

Rental assets represent purchased consumer goods held in store or delivered to end customers and earning revenue via operating lease arrangements. These assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided on rental assets and is calculated on a straight line basis so as to write-off the net cost of each asset over its estimated useful life. The estimated useful lives in the current and comparative periods are 2 to 6 years.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Gains and losses on disposal of an item of rental assets are determined by comparing the proceeds from disposal with the carrying amount of the asset and recognised net within revenue in the profit or loss.

The procedure for purchasing rental assets involves making deposit payments to suppliers and settling balances when delivery is complete.

7. INTANGIBLE ASSETS

\$'000 AUD	Goodwill	Software	Total
Year ended 31 March 2017			
Opening net carrying amount	20,658	4,866	25,524
Additions	-	839	839
Amortisation and Impairment charges for the year	-	(2,041)	(2,041)
Closing net book amount	20,658	3,664	24,322
At 31 March 2017			
Cost	27,732	12,408	40,140
Amortisation and Impairment	(7,074)	(8,744)	(15,818)
Net book amount	20,658	3,664	24,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

\$'000 AUD	Goodwill	Software	Total
Year ended 31 March 2018			
Opening net carrying amount	20,658	3,664	24,322
Additions	-	2,378	2,378
Amortisation and Impairment charges for the year	(20,658)	(1,263)	(21,921)
Closing net book amount	-	4,779	4,779
At 31 March 2018			
Cost	-	14,786	14,786
Amortisation and Impairment	-	(10,007)	(10,007)
Net book amount	-	4,779	4,779

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities of the acquired business.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Other intangibles

Other intangibles acquired as part of a business combination are recognised separately from goodwill. The assets are measured at fair value at the date of acquisition.

Amortisation

Amortisation is provided on all intangible assets excluding goodwill. Amortisation is calculated on a straight line basis so as to write-off the cost of each intangible asset over its estimated useful life. The estimated useful lives for software in the current and comparative periods are 3 – 8 years.

The residual value, the useful life and the amortisation method applied to an intangible asset are reassessed at least annually.

Impairment tests for Cash Generating Units (CGU) containing goodwill

Valuation of goodwill and other intangibles

Judgements are made with respect to identifying and valuing intangible assets on acquisition of new businesses.

Impairment of goodwill

Information about the assumptions and their risk factors relating to goodwill impairment is contained below. The consolidated entity assesses whether goodwill is impaired at least annually. The calculations include an estimation of the recoverable amount of the cash generating unit to which the goodwill is allocated.

The following units have significant carrying amounts of goodwill:

Carrying amount

\$'000 AUD	2018	2017
Consumer leasing	-	15,604
Business finance	-	5,054
Total	-	20,658

The recoverable amount of the above CGU's are determined based on a fair value less cost of sale calculation. The fair value measurement was categorised as a Level 3 fair value based on the inputs of the valuation techniques used. This is calculated based on the present value of cash flow projections over a 5 year period plus a terminal value and includes certain future strategic initiatives. The cash flow projections have been approved by the Board.

These cash flow projections are derived from budgets submitted and approved by the board. The budget cash flow projections are based on empirical experience, industry trends and other specific expectations in the future.

The method of calculation has changed from the previous year end where we used value in use. The change occurred due to the recoverable amount being deemed to be higher than the value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Key assumptions used for fair value less cost of sale calculations

Consumer Leasing

Testing using a fair value less cost of disposal revealed the carrying amount of the CGU exceeded its recoverable amount. An impairment charge for the total value of the intangible of the CGU of \$15.6m has been recognised in the income statement for the year ended 31 March 2018. The impairment amount required the goodwill only to be written off with other assets including rental assets still being carried at book value. The circumstances that led to this impairment included lower than expected business performance since the previous year end which prompted a downgrade to the future outlook in terms of both growth and cash flows.

The key assumptions used in the estimation of recoverable amount are set out as follows. Testing included a terminal value calculated using the cash flows for year 5 of the forecast period and a long-term growth rate of 2.0%. During the forecast period, revenue was assumed to grow at an average 0.7% which included installation growth of 13% between 2019 and 2022. Volume related costs have increased according to the increased volume during the testing period. Other costs have been either increased by CPI or contracted arrangements, or where reasonable kept flat with productivity savings assumption. The pre-tax discount rate is assumed at 11.3%.

Following the impairment loss recognised in the Consumer Leasing CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption could lead to further impairment.

Trade & Debtor Finance

Testing using a fair value less cost of disposal revealed the carrying amount of the CGU exceeded its recoverable amount. An impairment charge for the total value of the intangible of the CGU of \$5.1m has been recognised in the income statement for the year ended 31 March 2018. The impairment amount required the goodwill only to be written off with other assets still being carried at book value. The circumstances that led to this impairment included lower than expected business performance since the previous year end which prompted a downgrade to the future outlook in terms of both growth and cash flows.

The key assumptions used in the estimation of the recoverable amount are set out as follows. Testing included a terminal value calculated using the cash flows for year 5 of the forecast period and a long-term growth rate of 2.0%. During the forecast period, revenue was assumed to grow at an average of 0.9% on the assumption of no book growth during the testing period. The pre-tax discount rate is assumed at 12.7%. Non-volume related costs were forecast flat during the testing period assuming productivity savings offsetting CPI increases.

8. INCOME TAX EXPENSE

Recognised in the Income Statement

\$'000 AUD	2018	2017
Current tax expense		
Current year	8,805	2,379
Adjustment for prior year	(542)	(42)
Deferred tax expense		
Origination and reversal of temporary differences	(1,272)	9,817
Tax on discontinued operations	(1,217)	(1,842)
Total income tax expense in income statement	5,774	10,312

Numerical reconciliation between tax expense and pre-tax accounting profit

\$'000 AUD	2018	2017
Profit before tax	(689)	31,324
Prima facie income tax using the domestic corporation tax rate of 30% (2017: 30%)	(207)	9,397
Change in income tax expense due to:		
Non-deductible expenses	6,523	957
(Over) / Under provided in prior years	(542)	(42)
Income tax expense on pre-tax accounting profit	5,774	10,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

9. DEFERRED TAX ASSETS & LIABILITIES

Recognised deferred tax assets and liabilities

\$'000 AUD	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Rental assets	71,165	65,883	-	-	71,165	65,883
Property, plant and equipment	698	602	-	-	698	602
Trade, loan and other receivables	-	944	(617)	-	(617)	944
Finance lease receivables	-	-	(87,541)	(85,972)	(87,541)	(85,972)
Accruals	3,613	5,000	-	-	3,613	5,000
Provisions	1,417	1,380	-	-	1,417	1,380
Tax assets / (liabilities)	76,893	73,809	(88,158)	(85,972)	(11,265)	(12,163)

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

Thorn Group Limited and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 April 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Thorn Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable / (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

Thorn Group Limited recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of Tax Funding Arrangements and Tax Sharing Arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

10. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The consolidated entity is exposed to financial risks through the normal course of its business operations. The key risks arising are credit risk, liquidity risk and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit, Risk & Compliance Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Risk & Compliance Committee oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity.

Credit risk

Credit risk is the risk of loss that arises when a customer or third party fails to pay an amount owing to the Company and is the most significant risk to the group. The maximum exposure to credit risk is represented by the carrying amount receivables and loans. The Group leases products to consumers (as well as consumer loans that are in run off) and provides business finance to SME's pursuant to policies and procedures that are intended to ensure that there is no concentration of credit risk with any particular individual, company or other entity. The Group is subject to a higher level of credit risk due to the credit constrained nature of many of the Company's customers and in circumstances where its policies and procedures are not complied with.

The Group maintains a provision for receivable losses. The process for establishing the provision for losses is critical to the Group's results of operations and financial condition. It is determined by the Group using a calculation that considers the relative maturity of the receivables and loans within the portfolio, the long term expected loss rates based on actual historical performance and the long-term expected losses for a vintage of loans over their life based on actual historical performance. To the extent that such historical data used to develop its allowance for loans losses is not representative or predictive of current book performance, the Group could suffer increased loan losses beyond those provided for on its financial statements.

The Group cannot guarantee that delinquency and loss levels will correspond with the historical levels experienced and there is a risk that delinquency and loss rates could increase significantly and have a material adverse effect on the financial results of the Group.

Credit risk grew in-line with the growth of the loan and lease receivables in all segments, except Consumer Finance where bad debt provisioning increased as a percentage of the loan receivables due to the proposed liquidation of the book.

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's net exposure to credit risk at the reporting date was:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

\$'000 AUD	2018	2017
Trade receivables	7,740	6,614
Consumer finance lease receivables	155,145	172,794
Business finance lease receivables	249,645	215,662
Other commercial receivables	-	33,873
Loan receivables	80,368	49,675
	492,898	478,618

Impairment losses

Trade receivables

The consolidated entity assesses the impairment of receivables monthly. The calculations include an assessment of the expected rates of loss and for consumer lease receivables, also an estimate of collateral.

The ageing of the consolidated entity's trade receivables at the reporting date was:

\$'000 AUD	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	3,680	-	3,949	-
Past due 0 - 30 days	2,164	(544)	1,918	(384)
Past due 31+ days	3,825	(1,385)	2,027	(896)
	9,669	(1,929)	7,894	(1,280)

The net value of trade receivables as at 31 March 2018 was \$7,740,000 (2017: \$6,614,000)

The consolidated entity invoices its consumer rental customers in advance of the rental period. The revenue is not recognised in the financial statements until the due date of the invoice.

Consumer finance lease receivables

\$'000 AUD	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	138,955	-	160,603	-
Past due 0 - 30 days	16,147	(8,715)	17,888	(11,898)
Past due 31+ days	19,850	(11,092)	16,196	(9,995)
	174,952	(19,807)	194,687	(21,893)

The net value of consumer finance lease receivables at 31 March 2018 was \$155,145,000 (2017: \$172,794,000). The provision reflects the risk to the consolidated entity of the expected early return or loss of products throughout the life of the contract.

Collateral is held against the finance lease receivables in the form of the assets attached to the contract. In the event that the asset is returned due to early termination of the contract, the asset is available for rental on other contracts or disposal via cash sale. The book value of this collateral as at 31 March 2018 is \$90,337,000 (2017: \$106,581,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Thorn Equipment finance lease receivables

The ageing of the consolidated entity's commercial finance lease receivables at the reporting date was:

\$'000 AUD	Gross 2018	Impairment 2018	Gross 2017*	Impairment 2017*
Not past due	238,284	-	213,412	-
Past due 0 - 30 days	9,232	-	4,051	(2,326)
Past due 31+ days	7,406	(5,277)	2,743	(2,218)
	254,922	(5,277)	220,206	(4,544)

* Certain 2017 balances have been restated. Refer to Note 4 for further details

The net value of commercial finance lease receivables as at 31 March 2018 was \$249,645,000 (2017: \$215,662,000).

Other commercial receivables

The ageing of the consolidated entity's other commercial receivables at the reporting date was:

\$'000 AUD	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	-	-	13,871	-
Past due 0 - 30 days	-	-	13,265	-
Past due 31+ days	-	-	7,745	(1,008)
	-	-	34,881	(1,008)

The net value of other commercial receivables as at 31 March 2018 was \$nil (2017: \$33,873,000).

Loan receivables (Thorn Equipment Finance and remaining consumer solar loans)

The ageing of the consolidated entity's loan receivables at the reporting date was:

\$'000 AUD	Gross 2018	Impairment 2018	Gross 2017*	Impairment 2017*
Not past due	75,060	-	48,624	-
Past due 0 - 30 days	4,705	-	1,210	(162)
Past due 31+ days	1,616	(1,013)	333	(330)
	81,381	(1,013)	50,167	(492)

* Certain 2017 balances have been restated. Refer to Note 4 for further details

The net value of loan receivables as at 31 March 2018 was \$80,368,000 (2017: \$49,675,000).

Liquidity risk

Liquidity risk is the risk that the Group's financial condition is adversely affected by an inability to meet funding obligations and support its business growth. The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders by way of share appreciation and dividends.

The capital structure of the Group consists of external debt and shareholders' equity. The Group manages its capital structure and makes adjustments to it in light of economic conditions and the Group's individual situation. The Group's debt facilities must be renewed on a periodic basis. These facilities contain restrictions on the Group's ability to, among other things, pay dividends, sell or transfer assets, incur additional debt, repay other debt, make certain investments or acquisitions, repurchase or redeem shares and engage in alternate business activities. The facilities also contain a number of financial and non-financial covenants. Failure to meet any of these covenants could result in an event of default under these facilities which could, in turn, allow the lender to declare all amounts outstanding to be immediately due and payable or the inability to draw down further. In such a case, the financial condition, liquidity and results of operations of the Group could materially suffer.

The Group has been successful in renewing and expanding its debt facilities in the past to meet the needs of its growing equipment finance business. If the Group were unable to renew these facilities or unable to renew on acceptable terms when they became due, there could be a material adverse effect on the Group's financial condition, liquidity and results of operations.

Liquidity risk is managed through the adequate provision of funding and effective capital management policies. Thorn will look to diversify its funding sources to further mitigate this risk into the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

The following are the contractual maturities of the consolidated entity's financial liabilities including, where applicable, future interest payments as at 31 March 2018.

31 March 2018

\$'000 AUD	Carrying amount	Contractual Cash flows	1 year or less	1-5 years	5 years or more
Secured loan facilities	284,308	321,195	89,810	231,385	-
Trade and other payables	39,717	39,717	39,717	-	-
	324,025	360,912	129,527	231,385	-

31 March 2017

\$'000 AUD	Carrying amount	Contractual Cash flows	1 year or less	1-5 years	5 years or more
Secured loan facilities	276,463	298,300	57,162	241,138	-
Trade and other payables	43,232	43,232	43,232	-	-
	319,695	341,532	100,394	241,138	-

The consolidated entity's access to financing arrangements is disclosed in note 12.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency that will affect the consolidated entity's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns. The consolidated entity has foreign currency risk on the purchase of rental assets directly imported that are denominated in USD. The consolidated entity manages its exposure to foreign currency risk by utilising forward exchange contracts where appropriate.

Foreign currency risk

The Group is also subject to currency risk related to the direct acquisition of rental assets from overseas suppliers. To mitigate this risk the group operates a foreign exchange risk policy. Group has historically been able to price its lease transactions to compensate for the impact of foreign currency fluctuations on its purchases. However, in periods of rapid change in an exchange rate, the Company may not be able to pass on such changes in the cost of purchased products to its customers which may negatively impact the Company's financial performance. The Company currently does not actively hedge foreign currency risk and transacts in foreign currencies on a spot basis.

Interest rate risk

Interest rate risk is the risk the consolidated entity incurs financial loss due to adverse movement in interest rates. The consolidated entity is subject to interest rate risk on both its senior debt facility and the securitised warehouse.

The consolidated entity purchases interest rate hedges to effectively fix the securitised warehouse liabilities which have a known term and predictable cash flows on the established book. No interest rate hedges have been purchased on the corporate senior debt facility.

At the reporting date the interest rate profile of the consolidated entity's interest bearing financial instruments was:

\$'000 AUD	2018	2017
Financial assets	8,382	6,638
Financial liabilities	(284,308)	(276,463)

A change of one percent in interest rates at the reporting date would have increased or decreased the consolidated entity's equity and profit or loss by \$1,931,000 (2017: \$1,889,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Financial instruments

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on equity, which the consolidated entity defines as net profit after tax divided by the average of opening and closing equity. The Board of Directors also monitors the level of dividends to ordinary shareholders. Refer to note 13 for quantitative data.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments excluding financial assets at fair value through profit and loss are recognised initially at fair value plus transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost less impairment losses.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the consolidated entity's obligation specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the consolidated entity has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

The consolidated entity recognises its financial assets at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification of financial assets that the consolidated entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

Financial assets recognised at amortised cost are measured using the effective interest method, net of any impairment loss.

Financial assets other than those classified as financial assets recognised at amortised cost are measured at fair value with any changes in fair value recognised in profit or loss. Financial assets designated at fair value comprise purchased debt ledgers.

Fair values

The fair values of the Company's and consolidated entity's financial assets and liabilities as at the reporting date are considered to approximate their carrying amounts.

The fair value hierarchy

Financial instruments carried at fair value require disclosure of the valuation method according to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within 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 – Inputs for the asset or liability that are not based on observable market data.

The consolidated entity's financial instruments are measured at fair value. The Group's only Level 2 instruments are forward foreign exchange contracts and an interest rate derivative. Other financial instruments including purchase debt ledgers are classified as Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. PROVISIONS

2018 \$'000 AUD	Regulatory	Make good	Total
Opening balance	8,100	1,784	9,884
Provisions made during the year	450	596	1,046
Provisions used during the year	-	(481)	(481)
Provisions reversed during the year	-	(91)	(91)
Provisions reclassified to accruals	(2,412)	-	(2,412)
	6,138	1,808	7,946
Current	6,138	1,321	7,459
Non-current	-	487	487
	6,138	1,808	7,946

2017 \$'000 AUD	Regulatory	Make good	Total
Opening balance	-	1,700	1,700
Provisions made during the year	8,100	299	8,399
Provisions used during the year	-	(144)	(144)
Provisions reversed during the year	-	(71)	(71)
	8,100	1,784	9,884
Current	8,100	937	9,037
Non-current	-	847	847
	8,100	1,784	9,884

Regulatory

Regulatory provision represents amounts set aside for potential customer remediation, penalties and costs of engaging expert advice. During the year \$2,412,000 was reclassified to accruals and represents actual or specific amounts known to be payable rather than estimated.

Make good – lease premises

Make good provision represent expected costs of returning lease premises to an appropriate condition upon termination of rental contract.

12. LOANS AND BORROWINGS

\$'000 AUD	2018	2017
Current liabilities		
Secured loans	77,348	46,904
Non-Current liabilities		
Secured loans	206,960	229,559
	284,308	276,463

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Financing loan facilities

\$'000 AUD	2018	2017
Secured corporate loan facility A & B (Maturity 30 November 2019)	70,000	110,000
Utilised	(41,000)	(94,400)
Available headroom	29,000	15,600
Secured corporate loan facility C	-	65,000
Utilised	-	(30,000)
Available headroom	-	35,000
Securitised warehouse facility	250,000	180,000
Utilised	(243,308)	(152,063)
Available headroom	6,692	27,937
Total loan facilities	320,000	355,000
Utilised	(284,308)	(276,463)
Secured loan facilities not utilised at reporting date	35,692	78,537

The Group continues to be funded by one Australian major bank. That bank and the Company entered into a facility variation agreement during the year which required the Company to undertake progressive debt repayments and meet new covenants. These progressive repayments will reduce the facility limit to \$50m by 30 September 2018.

The corporate facilities terminate on 30 November 2019 with the bank having the right to a scheduled review of the facility on and from 30 September 2018 resulting from which they may issue a change notice for the conditions of the facility including its cost, margin, limit or terms and conditions.

The corporate facilities are secured by a fixed and floating charge over the assets of the consolidated entity.

The warehouse facility is secured by rentals and payments receivable from the underlying lease receivable contracts and is non-recourse to the Group. The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current. At maturity no further leases are able to be sold down into the facility and the portfolio will amortise off for as long as the underlying leases are payable. The warehouse facility has been extended from \$180m to \$250m and has an availability period to 16 December 2018 and a final maturity date of 16 December 2021. For more information about the consolidated entity's exposure to interest rate risk and liquidity risk see note 10.

13. CAPITAL AND RESERVES

Number of shares	2018	2017
On issue at the beginning of year	158,246,851	154,466,886
Issue of new shares on vesting of performance rights	-	-
Issue of shares under dividend investment plan	1,682,731	3,779,965
	159,929,582	158,246,851

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and performance rights are recognised as a deduction from equity net of any tax effects.

- Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings.
- In the event of the winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.
- The Company does not have authorised capital or par value in respect of its issued shares.

Equity remuneration reserve

The equity remuneration reserve represents the value of performance rights issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Dividends recognised in the current year by the Company are:

	Cents per share	Amount \$'000 AUDs	Franking %	Date of payment
2018				
Final 2017	2.5	3,956	100%	18 July 2017
Interim 2018	1	1,593	100%	19 January 2018
Total amount		5,549		
2017				
Final 2016	6	9,268	100%	18 July 2016
Interim 2017	5.5	8,612	100%	20 January 2017
Total amount		17,880		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

There was no dividend declared after the balance date.

Dividend franking account

\$'000 AUD	2018	2017
30% franking credits available to shareholders of Thorn Group Limited	36,930	31,559

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Dividend Reinvestment Plan (DRP)

The consolidated entity has operated a DRP during the financial year. An issue of shares under the dividend investment plan results in an increase in issued capital. The DRP allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with the Company's ordinary shares. All holders of the Company ordinary shares are eligible to participate in the plan.

The issue price for the shares acquired under the DRP will be a price derived from the arithmetic average of the daily volume weighted average market price per Company shares during the five trading days commencing on the second trading day following the Record Date for the relevant dividend, less any discount the directors may determine from time to time and announce to the Australian Stock Exchange.

In accordance with the Company's DRP 1,682,731 (2017: 3,779,965) new ordinary shares were issued during this financial year to the value of \$1,761,224 (2017: \$5,486,179).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

14. EARNINGS PER SHARE

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic earnings per share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

The calculation of basic earnings per share at 31 March 2018 was based on the loss attributable to ordinary shareholders of \$3,624,000 (2017: profit \$25,308,000) and a weighted average number of ordinary shares during the year ended 31 March 2018 of 159,094,096 (2017: 156,266,756).

Diluted earnings per share

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees.

The calculation of diluted earnings per share at 31 March 2018 was based on the loss attributable to ordinary shareholders of \$3,624,000 (2017: profit \$25,308,000) and a weighted average number of ordinary shares during the year ended 31 March 2018 of 159,094,096 (2017: 156,266,756) which includes performance rights granted.

\$'000 AUD	2018	2017
Earnings per share		
Profit attributable to ordinary shareholders (basic) \$'000 AUD		
Profit attributable to ordinary shareholders (basic and diluted) - continuing operations	(6,463)	21,012
Profit attributable to ordinary shareholders (basic and diluted)	(3,624)	25,308
Weighted average number of ordinary shares (basic) '000's		
Issued ordinary shares at 1 April	158,247	154,467
Effect of shares issued	847	1,800
Weighted average number of ordinary shares for the year	159,094	156,267
Weighted average number of ordinary shares (diluted) '000's		
Issued ordinary shares at 1 April	158,247	154,467
Effect of shares issued	847	1,800
Weighted average number of ordinary shares for the year	159,094	156,267
Earnings per share - continuing operations		
Basic earnings per share (cents)	(4.06)	13.45
Diluted earnings per share (cents)	(4.06)	13.45
Earnings per share		
Basic earnings per share (cents)	(2.28)	16.20
Diluted earnings per share (cents)	(2.28)	16.20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

15. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership Interest	
		2018	2017
Parent entity			
Thorn Group Limited	Australia		
Subsidiaries			
Thorn Australia Pty Ltd	Australia	100%	100%
Eclipse Retail Rental Pty Ltd	Australia	100%	100%
Rent Try Buy Pty Ltd	Australia	100%	100%
Thorn Personal Finance Pty Ltd	Australia	-	100%
1 st Cash Pty Ltd	Australia	-	100%
Thorn Equipment Finance Pty Ltd	Australia	100%	100%
Thorn Finance Pty Ltd	Australia	100%	100%
Thorn ABS Warehouse Trust No. 1	Australia	100%	100%
Cash Resources Australia Pty Ltd	Australia	-	100%
Cash Resources Australia Unit Trust	Australia	-	100%

Basis of consolidation

Subsidiaries

Subsidiaries are entities (including special purpose entities) controlled by the consolidated entity. The consolidated entity controls an entity when is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The consolidated entity has established a special purpose entity (SPE), Thorn ABS Warehouse Trust No.1, for the purpose of securitising finance lease receivables acquired and other receivables it intends to originate. The SPE entity is wholly owned by the consolidated entity and included in the consolidated financial statements, based on the evaluation of the substance of its relationship with the consolidated entity and the SPE's risks and rewards.

The following circumstances indicate a relationship in which the consolidated entity controls and subsequently consolidates the SPE:

- The activities of the SPE are being conducted on behalf of the consolidated entity according to its specific business needs so that the consolidated entity obtains benefits from the SPE's operation.
- The consolidated entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE.
- The consolidated entity retains the majority of the residual of ownership risks of the SPE or its asset in order to obtain benefits from its activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

16. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations Instrument 2016/914 certain wholly owned subsidiaries are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' reports.

It is a condition of the Corporates Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of this is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the Deed are listed in note 15 (excluding Thorn ABS Warehouse Trust No. 1).

The consolidated Statement of Comprehensive Income comprising of entities which are parties to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 March 2018, is the same as the consolidated Statement of Comprehensive Income in this financial report. The consolidated Statement of Financial Position in this financial report includes the assets and liabilities of Thorn ABS Warehouse Trust No. 1. Excluding the Thorn ABS Warehouse Trust No. 1, cash and cash equivalents would decrease by \$14,517,000 and trade and other payables would decrease by \$14,517,000.

17. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 March 2018 the parent entity of the consolidated entity was Thorn Group Limited.

\$'000 AUD	2018	2017
Result of Parent Entity		
Profit for the period	5,549	17,880
Other comprehensive income	193	(546)
Total comprehensive income for the period	5,742	17,334
Financial position of the parent entity at year end		
Current assets	3,099	5,916
Total assets	134,495	136,398
Current liabilities	3,099	5,916
Total liabilities	14,363	18,079
Total equity of the parent comprising		
Share capital	117,102	115,340
Equity remuneration reserve	3,030	2,979
Total Equity	120,132	118,319

The parent entity has entered into a Deed of Cross Guarantee with the subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 15 and note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

18. DISPOSAL OF SUBSIDIARY

With effect from 1 November 2017, the Thorn Financial Services business was sold to a third party. The Group received \$13.3m cash on settlement. With effect from 26 February 2018, the Thorn Debtor Finance business was sold to a third party. The Group received \$37.9m cash on settlement. The NCML Receivables Management business was sold in the prior year to a third party in September 2016 and during this financial year the Group received a further \$293,000 following a completion audit.

(a) A. Result of discontinued operations

\$'000 AUD	2018	2017
Revenue	13,510	28,182
Expenses	(9,966)	(21,030)
Results from operating activities	3,544	7,152
Income tax	(1,063)	(2,146)
Results from operating activities, net of tax	2,481	5,006
Gain/(loss) on sale of discontinued operation	512	(1,014)
Income tax on sale of discontinued operation	(154)	304
Profit (loss) from discontinued operations, net of tax	2,839	4,296

(b) Cash flow from / (used in) discontinued operation

\$'000 AUD	2018	2017
Net cash used in operating activities	(463)	(2,383)
Net cash from investing activities	51,249	(19)
Net cash flows for the year	50,786	(2,402)

(c) Effect of disposal on the financial position of the Group

\$'000 AUD	2018	2017
Cash and cash equivalents	-	(415)
Trade and other receivables	(49,587)	(23,685)
Deferred tax asset	(323)	(519)
Property, plant and equipment	(97)	(216)
Trade and other payables	255	1,341
Employee benefits	38	801
Provisions	(1,023)	60
Net assets and liabilities	(50,737)	(22,633)
Consideration received, satisfied in cash	51,249	21,600
Cash and cash equivalents disposed of	-	(415)
Net cash inflows	51,249	21,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

19. EMPLOYMENT BENEFITS EXPENSE

\$'000 AUD	2018	2017
Wages and salaries	46,013	49,848
Contributions to defined contribution superannuation funds	3,697	3,775
Termination benefits	494	718
Equity settled share-based payment transactions	(142)	337
	50,062	54,678

20. RELATED PARTIES

Key management personnel remuneration

\$'000 AUD	2018	2017
Short-term employee benefits	2,930	2,982
Post-employment benefits	479	151
Long-term employee benefits	3	38
Share based payments	(329)	235
	3,083	3,406

Individual directors and executives compensation disclosures

Information regarding individual director's and executive's compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

There were no loans made or outstanding to Directors or executive KMP during or at the end of the year.

A director, Stephen Kulmar, is the founder of the retail consultancy Retail Oasis, which has the Company as one of its clients. During the year there were no engagements nor fees billed for services rendered but the Company reimbursed Retail Oasis \$8,860 for costs incurred on behalf of Thorn employees. Accordingly Mr Kulmar is considered an independent director. No other director has entered into a material contract with the company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

21. AUDITORS' REMUNERATION

In whole AUD	2018	2017
Audit services		
KPMG Australia:		
Audit and review of financial reports	574,650	367,000
Compliance assurance services	26,500	36,000
Disposal of subsidiary related audit services	15,000	33,500
Total Audit Services	616,150	436,500
Other services		
KPMG Australia:		
Taxation services – compliance and advice	234,380	132,989
Regulatory advisory*	-	180,000
Risk consulting services	127,285	112,848
Other services	109,397	18,525
Total Other Services	471,062	444,362
Total Auditor's Remuneration	1,087,212	880,862

* In 2017 the regulatory advisory assignment was a one-off non-recurring item and KPMG were contracted as they were best placed for that particular work.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

22. CONTINGENT LIABILITY

Class action

The Thorn subsidiary running Radio Rentals was named on 29 March 2017 as the respondent to a class action proceeding that has been commenced by one of its customers in the Federal Court of Australia. The statement of claim relates to misleading, deceptive and unconscionable conduct, false representations and unfair contract terms.

The matter will be vigorously defended and is expected to take some time, possibly years, to resolve. No provision has been taken in these accounts. Legal fees will be incurred defending the matter over the period of that defence should the matter proceed.

23. FINANCING AND GOING CONCERN BASIS

At the half year ended 30 September 2017, the Company had breached two of its bank covenant financial ratios. The bank formally waived the breach and instituted a facility variation deed which required the Company to undertake progressive debt repayments and meet new covenants. The facility variation deed reduced the facility limit to \$90m by 31 December 2017, \$70m by 30 June 2018, and \$50m by 30 September 2018.

Directors were confident the company could meet these progressive repayments and indeed the corporate debt facility was paid down to \$41m in February 2018 utilising operational cash flows and proceeds from the sale of Thorn Financial Services and Trade & Debtor Finance.

Subsequent to the financial year end, the bank has instituted a further facility variation deed which has removed one of the previous tightening financial covenants and applied a replacement earnings based covenant. The facility variation deed entered into at the half year provided for the facility termination date to be extended to 30th November 2019 with the bank having the right to conduct an independent review of the facility on 30th September 2018 and to amend the facility terms. The directors are confident the company has a number of alternative funding options available if required.

Accordingly, the directors are satisfied that the going concern basis should be adopted in preparing this financial report.

24. SUBSEQUENT EVENTS

ASIC

The Company attended a Federal Court hearing for the ASIC v Thorn Australia Pty Ltd regulatory matter on 16 May at which the Court ordered Thorn to pay a pecuniary penalty of \$2 million and reimburse ASIC's agreed costs. This was as previously advised to the ASX on 23 January 2018.

DIRECTORS' DECLARATION

For the year ended 31 March 2018

Directors' declaration

In the opinion of the directors of Thorn Group Limited (the 'Company'):

1. (a) the financial statements and notes that are set out on pages 23 to 52 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 March 2018 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the consolidated entities identified in note 15 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the consolidated entities pursuant to ASIC Corporations Instrument 2016/914.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 March 2018.

Signed in accordance with a resolution of the directors.



David Foster
Chairman

Dated at Sydney
30 May 2018



Independent Auditor's Report

To the shareholders of Thorn Group Limited,

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Thorn Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 March 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Consolidated statement of financial position as at 31 March 2018;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end and from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Going concern basis of accounting;
- Finance lease receivables impairment provision;
- Valuation of goodwill; and
- Regulatory provisions.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of 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.

Going concern basis of accounting

Refer to Note 23 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on its ability to continue as a going concern. These are outlined in Note 23.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.</p> <p>We critically assessed the level of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:</p> <ul style="list-style-type: none"> the Group's planned levels of operational revenue and expenditures, and the ability of the Group to manage cash outflows within available funding; the Group's ability to meet financing commitments and loan covenants. This included the nature of planned methods to achieve this, their feasibility and progress of those plans; and the Group's plans to undertake certain corporate actions, as options for the projected raising of cash. This included the feasibility, projected timing and quantum of potential proceeds. <p>In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> We analysed the cash flow projections by: <ul style="list-style-type: none"> Evaluating the underlying data used to generate the projections. We specifically looked for their consistency with those used by the Directors, and tested by us, as set out in the valuation of goodwill key audit matter, their consistency with the Group's intentions, as outlined in Director's minutes and strategy documents, and their comparability to past practices; and Analysing the impact of reasonably possible changes in projected results and their timing. Assessing the resultant impact to the ability of the Group to comply with the revised bank covenants. The specific areas we focused on were informed from our test results of the accuracy of previous Group results projections and sensitivity analysis on key results projection assumptions. We assessed significant non-routine forecast cash inflows for feasibility, quantum and timing, and their impact to going concern and funding conditions. We used our knowledge of the Group, its industry and status to assess the level of associated uncertainty. We read correspondence with existing and potential financiers to understand and assess the options available to the Group including renegotiation of existing debt facilities, waivers related to financial loan covenants and negotiation of additional or revised funding arrangements. We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.



Finance lease and loan receivables impairment provision (\$26,097,000)

Refer to Note 10 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group estimate impaired finance lease and loan receivables collectively, by categorising lease and loan receivables into portfolios with similar risk profiles, and using historical experience of actual-category impairment losses adjusted for any effects of conditions existing at the balance date.</p> <p>We focused on this area as a key audit matter due to the relative magnitude of both finance lease and loan receivable impairment provisions recognised and complexity of the Rent Try Buy 48 month (“RTB 48”) impairment provision which necessitated significant audit effort.</p> <p>We focused on the following significant assumptions:</p> <ul style="list-style-type: none"> • ‘expected loss’ of products in the remaining life of the contract. The expected loss reflects the risk of non-recoverability of the receivable and the risk that the customer has also absconded with an asset after the cancellation of the contract. • specifically for the RTB 48 portfolio of receivables, the extended length of maturity, compared to other categories, increases the risk of non-recoverability. This portfolio contains lease contracts, with a limited number that have gone to term, therefore, there is a limited profile of historical impairment losses with which to estimate the impairment provision. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluation of the Group’s finance leasing accounting process. We tested a sample of controls in this process designed to limit the risk of impairment of receivables including the approval of new customer applications, authorisation to write off impaired receivables and review of finance lease and loan receivable impairment provisions. • We assessed the total impairment provision for all receivables by: <ol style="list-style-type: none"> (1) assessing the historical impairment losses, compared to the prior year’s impairment provision; and (2) analysing actual impairment losses compared to gross historical finance lease and loan receivable balances and our experience. • Specifically for the RTB 48 portfolio of receivables, we compared the RTB 48 month receivable life curve to prior period life curves, for patterns such as loss of products, length of maturity for expected loss, and nature of products lost, to challenge the profile of the current period RTB 48 month receivables life curve. We checked these considerations in the Group’s impairment provision at balance date. The life curve is a graph showing the average proportion of receivables for a group of RTB 48 month receivables recorded in the same month since they were installed.



Valuation of goodwill (\$20,658,000)

Refer to Note 7 to the Financial Report

The key audit matter

Our audit attention focused on the valuation of goodwill as a key audit matter due to the level of significant judgement required by us in evaluating the Group’s assessment of impairment.

The assessment of impairment of goodwill is based on a fair value less costs of disposal model, which includes assumptions, including forecast cash flows, discount rate applied, and the forecast growth and terminal growth rates. Reasonably possible changes in these assumptions have a significant impact on the valuation.

Estimating the cash flows requires the exercise of judgement as to the likely impact of:

- competitive pressures in the invoice discounting sector; and
- potential changes resulting from early adoption of proposed regulatory changes to the consumer leasing sector and lending practices.

In addition to the above, the Group recorded an impairment charge of \$20,658,000 against goodwill, resulting from the challenging trading conditions and significant reduction in installation volumes. This further increased our audit effort in this key audit area.

The significant judgement involved in the annual impairment testing necessitated specialist involvement and experienced senior team member time.

How the matter was addressed in our audit

Our procedures included:

- We performed sensitivity analysis, for key assumptions, including terminal growth rate and forecast cash flows to further focus our procedures.
- Working with our specialists we used our knowledge of the client, and their industry to challenge the Group’s fair value less costs of disposal models and significant assumptions. This included:
 - (1) corroborating the Group’s growth rate assumptions and discount rates for both the Thorn Debtor Finance and Consumer Leasing CGUs to known market trends and comparable entities; and
 - (2) evaluating forecast cashflows in light of recent competitive market pressure and changes to lending practices resulting from proposed regulatory changes. This included comparing revenue growth rates for the consumer leasing and invoice discounting sector to the growth rates incorporated in the Group’s fair value less costs of disposal models.
- Working with our valuation specialists we compared the implied multiples from comparable market transactions to the implied multiple from the Group’s fair value less costs of disposal models.
- We assessed the historical accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the fair value less costs of disposal models.
- We recalculated the impairment charge against the recorded amount disclosed.
- We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.



Regulatory provision (\$6,138,000)

Refer to Note 11 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Our audit attention focused specifically on the regulatory provision as a key audit matter due to the level of judgement required by us in evaluating the Group's assessment of the provision. The provision relates to matters arising from the Group's serviceability model and lending practice compliance with the requirements of the National Consumer Credit Protection Act.</p> <p>The component of the provision estimation we focussed on is the, compensation of customers, who are required to be remediated.</p> <p>ASIC's investigation into the Group's compliance with responsible lending laws has been finalised. Our judgement involved evaluating the Enforceable Undertaking and measuring any resulting obligations.</p> <p>We used senior team members to assess these judgements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ● Evaluating external information regarding the Group's estimates for claims relating to, their serviceability model and responsible lending practices, as it relates to the compensation of customers. ● Obtaining the Group's calculation of the provision related to the compensation of customers and checking on a sample basis the data used in the calculation for consistency to the billing system, as tested by us. ● Assessing the parameters of the Group's calculation of the provision related to the compensation of customers, against the parameters detailed within the Enforceable Undertaking, in order to consider the completeness of the provision. We specifically tested the period in which the Group's serviceability model was in place, financial obligations, and arrears events of the customer.

Other Information

Other Information is financial and non-financial information in Thorn Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors's Report. The anticipated 2018 Financial Overview, Chair's Report, Managing Director's Report, Board of Directors, Leadership Team, Our Businesses, Community, and the Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Thorn Group Limited for the year ended 31 March 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in pages 10 to 20 of the Directors' report for the year ended 31 March 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Anthony Travers
Partner

Sydney

30 May 2018