



ACN 072 507 147

NOTICE OF 2014 ANNUAL GENERAL MEETING

NOTICE is hereby given of the 2014 Annual General Meeting of members of Thorn Group Limited (ACN 072 507 147) (the "**Company**" or "**Thorn**") to be held:

Date: Tuesday, 26 August 2014

Time: 11.00am (Sydney time)

Venue: The Four Points by Sheraton Darling Harbour (161 Sussex Street, Sydney, NSW 2000)

BUSINESS

1. Chair's address and Managing Director/CEO's review of operations

2. Receipt of Annual Financial Report

Receipt of the Company's Financial Report, the Directors' Report and the Auditor's Report for the year ended 31 March 2014.

3. Election of Mr Stephen Kulmar as a director (Resolution 1)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mr Stephen Kulmar, who having been appointed as a director of the Company on 15 April 2014 in accordance with the Company's constitution, and being eligible, be elected as a director of the Company."

4. Approval of future issues under the Performance Rights Plan (Resolution 2)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the Company's Performance Rights Plan, as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting, be approved for

the issue of securities under that Plan for the purpose of ASX Listing Rule 7.2, exception 9."

Please note that the Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section on pages 3 and 4 below.

5. Performance Rights grant to Mr James Marshall as Managing Director/CEO (Resolution 3)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That approval is given for all purposes under the Corporations Act and ASX Listing Rule 10.14 for the grant of 66,556 Performance Rights to Mr James Marshall, and either the issue or transfer of ordinary shares in the Company to Mr Marshall upon the vesting and exercise of those Performance Rights, in accordance with the terms of the Company's Performance Rights Plan and on the basis described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting."

Note: If approval is obtained under Listing Rule 10.14, approval is not required under Listing Rule 7.1, as set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting.

Please note that the Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section on pages 3 and 4 below.

6. Adoption of Remuneration Report (Resolution 4)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That for the purpose of Section 250R(2) of the Corporations Act, and for all other purposes, approval is given for the adoption of the Remuneration Report (which forms part of the Directors' Report) for the year ended 31 March 2014."

Please note that the vote on this resolution is advisory only and does not bind the Directors or the Company.

Please note that the Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section on pages 3 and 4 below.

CONTINGENT BUSINESS

7. Board Spill Meeting Resolution (Resolution 5) (contingent upon outcome of Resolution 4)

Subject to and conditional upon at least 25% of the votes on Resolution 4 being cast against the adoption of the Remuneration Report for the year ended 31 March 2014, members will be asked to consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That:

- (a) an extraordinary general meeting of the Company (the "Spill Meeting") be held within 90 days of the passing of this resolution;*
- (b) all of the Non Executive Directors in office when the Board resolution to make the Directors' Report for the financial year ended 31 March 2014 was passed (being David Carter, Peter Henley, Joycelyn Morton and Stephen Kulmar) and who remain in office at the time of the Spill Meeting, cease to hold office immediately before the end of the Spill Meeting; and*
- (c) resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting be put to the vote at the Spill Meeting."*

The Chair of the meeting intends to vote undirected proxies that are able to be voted **against** this resolution.

Please note that the Company will disregard any votes cast on this resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section on pages 3 and 4 below.

Please refer to the accompanying Explanatory Memorandum attached to this Notice of Annual General Meeting in relation to agenda items 1 to 7.

Dated: 25 July 2014

By order of the Board



Peter Eaton
Company Secretary

VOTING BY PROXY

- (a) **(right to appoint)**: Each shareholder has the right to appoint a proxy to attend and vote for the shareholder at this meeting.
- (b) **(two proxies)**: To enable a shareholder to divide their voting rights, a shareholder may appoint 2 proxies. Where 2 proxies are appointed:
 - (i) a separate Proxy Form should be used to appoint each proxy; and
 - (ii) the Proxy Form may specify the proportion, or the number, of votes that the proxy may exercise, and if it does not do so the proxy may exercise half of the votes.
- (c) **(who may be a proxy)**: A shareholder can appoint any other person to be their proxy. A proxy may be an individual or a body corporate and need not be a shareholder of the Company. The proxy appointed can be described in the Proxy Form by an office held, for example, "the Chair of the Meeting".
- (d) **(signature(s) of individuals)**: In the case of shareholders who are individuals, the Proxy Form must be signed:
 - (i) if the shares are held by one individual, by that shareholder; or
 - (ii) if the shares are held in joint names, by any one of them.
- (e) **(signatures on behalf of companies)**: In the case of a shareholder who is a company, the Proxy Form must be signed:
 - (i) if it has a sole director who is also sole company secretary, by that director in the appropriate box; or
 - (ii) in the case of any other company, by either 2 directors or a director and company secretary.

- (f) **(other authorised persons):** If the person signing the Proxy form is doing so under power of attorney, or is an officer of a company outside of paragraph (e) above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy Form, must be received by the Company by the time and at the place in paragraph (g) below.
- (g) **(lodgement place and deadline):** A Proxy Form accompanies this notice.
- (i) To be effective, Proxy Forms (duly completed and signed) must be received by the Company at its registered office:
- (A) at Computershare Investor Services Pty Limited GPO Box 242 Melbourne VIC 3001; or
- (B) by facsimile (within Australia) on 1800 783 447 or (outside Australia) +61 3 9473 2555,
- no later than 11.00am (Sydney time) Sunday 24 August 2014.
- (ii) For custodians who are subscribers of Intermediary Online, please submit your votes electronically via www.intermediaryonline.com no later than 11.00am (Sydney time) Sunday 24 August 2014.

A proxy is not revoked by the relevant member attending and taking part in the meeting unless the member actually votes at the meeting on the resolution for which the proxy is proposed to be used.

Shareholders who appoint a proxy should consider how they wish to direct the proxy to vote, that is, whether the shareholder wishes the proxy to vote "for" or "against", or abstain from voting, on each resolution, or whether to leave the decision to the appointed proxy after discussion at the meeting.

THE CHAIR OF THE ANNUAL GENERAL MEETING ACTING AS PROXY

You may appoint the Chair of the meeting as your proxy. The Chair of the meeting is deemed to be appointed where a signed proxy form is returned which does not contain the name of the proxy.

If you direct the Chair of the meeting how to vote on an item of business, on a poll, the Chair must vote in accordance with the direction.

For proxies without voting instructions that are exercisable by the Chair of the meeting, the Chair intends to vote all available proxies in favour of each of Resolutions 1 to 4 inclusive. It should be noted that the Chair will vote all available proxies AGAINST Resolution 5 (the Board Spill Meeting Resolution) if that resolution is required to be put to a vote.

In relation to each of the remuneration-related resolutions (being Resolutions 2, 3, 4 and 5), if the Chair of the meeting is appointed as your proxy, and you have not directed your proxy how to vote on the relevant resolution, please note that by completing and returning the proxy form you will be expressly authorising the Chair of the meeting to exercise your undirected proxy on these resolutions even though they are connected with the remuneration of the Company's key management personnel.

SHAREHOLDERS WHO ARE ENTITLED TO VOTE

For the purposes of this meeting and in accordance with regulation 7.11.37 of the Corporations Regulations 2001, the Directors have determined that a person's entitlement to vote at the meeting will be the entitlement of that person set out in the register of members as at 7.00pm (Sydney time) on Sunday 24 August 2014.

VOTING EXCLUSIONS

The *Corporations Act 2001* (Cth) ("**Corporations Act**") and the ASX Listing Rules require that certain persons must not vote, and the Company must disregard any votes cast by or on behalf of certain persons, on four of the five resolutions to be considered at the Annual General Meeting. These voting exclusions are described below.

Item 4 (Resolution 2) and Item 5 (Resolution 3)

The following persons may not vote, and the Company will disregard any votes cast by the following persons, on each of Resolutions 2 and 3:

- (a) Any Director who is eligible to participate in the Company's Performance Rights Plan (and any associate of such a Director). However, the Company need not disregard a vote if:
- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
- (b) Any key management personnel ("**KMP**") (and any closely related party of a KMP) that is appointed as a proxy where the proxy appointment does not specify the way the proxy is to vote on the relevant resolution, unless:
- (i) the proxy is the Chair of the meeting; and

- (ii) the proxy appointment expressly authorises the Chair to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a KMP.

Item 6 (Resolution 4) and Item 7 (Resolution 5)

The following persons may not vote, and the Company will disregard any votes cast by the following persons, on Resolutions 4 and 5:

- (a) Any KMP whose remuneration details are included in the Remuneration Report (and any closely related party of such a KMP, and any person voting on behalf of such a KMP or closely related party), unless the person does so as a proxy and:
 - (i) the vote is not cast on behalf of any KMP whose remuneration details are included in the Remuneration Report (or any closely related party of such KMP); and
 - (ii) either:
 - (A) that person is appointed as a proxy by writing that specifies how the proxy is to vote on the resolution; or
 - (B) that person is the Chair of the meeting and the proxy appointment expressly authorises the Chair to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a KMP.
- (b) Any KMP whose remuneration details are not included in the Remuneration Report (and any closely related party of such a KMP) that is appointed as a proxy where the proxy appointment does not specify the way the proxy is to vote on the resolution, unless:
 - (i) the proxy is the Chair of the meeting; and
 - (ii) the proxy appointment expressly authorises the Chair to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a KMP.

For the purposes of these voting exclusions:

- (a) The KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Thorn consolidated group, either directly or indirectly, including any Directors (executive and non-executive) of the Company.
- (b) The term "closely related party" is defined in the Corporations Act and includes a KMP's spouse, dependant and certain other close family members, as well as any companies controlled by the KMP.

EXPLANATORY MEMORANDUM

BUSINESS

Item 1: Chair's address and Managing Director/CEO's review of operations

The Chair of the meeting will make his address and the Managing Director/CEO will present a review of the Company's operations.

Item 2: Receipt of Annual Financial Report

As required by the Corporations Act, the Financial Report, the Directors' Report and the Auditor's Report for the financial year ended 31 March 2014 will be laid before the Annual General Meeting. There is no requirement for a formal resolution on this item. However, the Chair of the meeting will allow a reasonable opportunity for the shareholders as a whole at the meeting to ask questions about, or make comments on, those reports.

Shareholders should refer below in relation to asking questions directed to the auditor.

Item 3: Election of Mr Stephen Kulmar as a director (Resolution 1)

Stephen Kulmar was appointed as an independent, non-executive director on 15 April 2014 and was also appointed as Chair of the Company's Remuneration and Nomination Committee.

Mr Kulmar is the former Managing Director and Chairman of IdeaWorks and is currently the Managing Director of Retail Oasis, a boutique retail marketing services company. He is also a director of RCG Corporation Limited.

Mr Kulmar has over 30 years' experience in advertising and has extensive experience in retail strategy, brand strategy, channel to market strategy, business re-engineering and new retail business development.

Mr Kulmar is a non-executive director of ASX listed RCG Corporation Limited, an Australian based investment holding company which owns and operates the Athletes Foot and RCG Brands Pty Ltd (a wholesale and distribution company). He is also an advisor to a number of private and family company Boards.

Recommendation

Your Directors (other than Stephen Kulmar) unanimously recommend that you vote in favour of Resolution 1.

Item 4: Approval of future issues under the Performance Rights Plan (Resolution 2)

The Company's Performance Rights Plan has operated since 2010. It is designed to assist with the attraction, motivation and retention of relevant employees of the Thorn Group, align the interests of those employees and shareholders by matching rewards with the long term performance of the Company and, accordingly, drive the Company's improved performance.

The Plan was previously approved by shareholders at the 2010 Annual General Meeting for the purpose of an exception to ASX Listing Rule 7.1, which restricts (in certain circumstances) the issue of new securities in any 12 month period to 15% of issued shares without shareholder approval.

The applicable exception sought in this resolution is contained in ASX Listing Rule 7.2, exception 9. The effect of shareholder approval under this exception is that any issues of securities under the Performance Rights Plan are treated as having been made with the approval of shareholders for the purposes of ASX Listing Rule 7.1. Approval under this exception lasts for three years.

The resolution on item 4 seeks to refresh shareholder approval for a further three years so that securities issued pursuant to the Performance Rights Plan are not included within the limit of 15% of issued shares that can be issued without shareholder approval.

In accordance with ASX Listing Rule 7.2, exception 9:

- (a) a summary of the key terms of the Plan is set out in **Attachment A** to this Explanatory Memorandum; and
- (b) the Company confirms that, since the date of the last approval for this item at the Company's 2010 Annual General Meeting:
 - (i) 1,564,748 Performance Rights have been issued; and
 - (ii) 1,219,133 Thorn shares in respect of Performance Rights have been issued,

to senior executives of the Company.

These amounts include 569,620 Performance Rights issued to Mr John Hughes (the former Managing Director/CEO of the Company) with the prior approval of shareholders at the 2012 Annual General Meeting, and 778,177 Thorn shares in respect of Performance Rights issued to John Hughes. All outstanding Performance Rights granted to Mr Hughes have now lapsed.

The Non-Executive Directors of the Company believe that the Plan is an appropriately designed equity-based employee incentive scheme, having regard to the role of the Plan in the attraction, motivation and retention of relevant employees and in driving the improved performance of the Company.

The Board believes that the Plan has been integral to the Company's strong financial performance since its implementation due to:

- (a) the retention of key executives despite a highly competitive and challenging retail industry;
- (b) the design of the Plan linking executive reward to increases in shareholder value;
- (c) the rigorous performance hurdles under the Plan; and
- (d) full disclosure of the Plan in the Company's Annual Reports.

A copy of the Rules of the Company's Performance Rights Plan is available on the Company's website www.thorn.com.au.

Recommendation

Your Directors (other than Mr James Marshall, who is a participant in the Plan) unanimously recommend that you vote in favour of Resolution 2.

Item 5: Performance Rights grant to Mr James Marshall as Managing Director/CEO (Resolution 3)

Background

On 4 April 2014 the Board announced the appointment of Mr James Marshall as the new Managing Director and Chief Executive Officer of the Company. Mr Marshall undertook those roles on and from 1 June 2014.

Most recently as Chief Operating Officer and prior to that as General Manager of Radio Rentals/Rentlo, Mr Marshall has been a key driver in the success of the business over the past 7 years and has played an important part in the diversification strategy of the Thorn Group.

Mr Marshall's remuneration package includes (i) a base salary of \$490,000 per annum (including superannuation) subject to annual review, (ii) a short term annual cash incentive of up to 100% of his base salary (provided the Company achieves or exceeds pre-determined financial targets), and (iii) a long term equity incentive initially consisting of 66,556 Performance Rights, which are subject to performance hurdles as described below.

2014 Performance Rights

The 66,556 Performance Rights proposed to be granted to Mr Marshall in 2014 is calculated based on the volume weighted average price of the shares of the Company over the 5 trading days prior to the reference date for grant of 1 July 2014, being \$2.1786 per share, and based on a total

value of \$145,000. The Board determined the \$145,000 total value for this proposed 2014 grant based on:

- (a) \$245,000, being 50% of Mr Marshall's base salary of \$490,000 per annum; less
- (b) \$100,000, being the value (at the time of grant) of the 2012 Performance Rights granted to Mr Marshall (in his capacity as General Manager of Radio Rentals) to the extent that those Performance Rights may vest in 2017, being the same year as the proposed 2014 grant of Performance Rights the subject of this Resolution 3 may vest.

The Board believes that part of the rewards for Mr Marshall's services to the Company should be performance-based and at risk and should involve equity interests in the Company. This approach reflects national and international best practice in executive remuneration and corporate governance. In structuring the terms of the short term and long term incentives, the Board has carefully considered market practice among comparable companies listed on the ASX.

Why shareholder approval is being sought

ASX Listing Rule 10.14 states that a listed company must not permit a Director to acquire securities under an employee incentive scheme without the approval of shareholders by ordinary resolution.

The purpose of Resolution 3 is to have shareholders approve the proposed grant under the Company's Performance Rights Plan to the Company's Managing Director and Chief Executive Officer, Mr James Marshall, of Performance Rights.

Subject to approval by shareholders, the Board proposes that under the Plan in respect of the 2015 financial year, the grants will comprise the issue of 66,556 Performance Rights to Mr Marshall.

Even if shareholders approve the grant of Performance Rights, the vesting and exercise of the Performance Rights will still be subject to the performance hurdles which will be tested in approximately 3 years, as outlined below.

The purpose of the Performance Rights grant is to incentivise a focus on the achievement of superior and sustainable long term performance for shareholders. Issuing Performance Rights (and other forms of equity securities) to senior executives is a well established and standard component of the Company's remuneration structures and the Directors, other than Mr Marshall (in view of his personal interest in the resolution), believe it is appropriate for shareholders to approve the grants of Performance Rights as contemplated by Resolution 3.

In accordance with Listing Rule 7.2 (Exception 14), if approval for the issue of Performance Rights is given under listing Rule 10.14, approval is not required under Listing Rule 7.1.

Vesting, Performance Period and Exercise Period

The 66,556 Performance Rights proposed to be issued to James Marshall under the 2014 invitation will be capable of vesting on 1 June 2017 ("**Test Date**").

The Test Date follows a 3 year period (from 1 April 2014 to 31 March 2017) ("**Performance Period**") over which the performance hurdles described below are tested.

Subject to the performance hurdles, Mr Marshall can exercise any Performance Rights which become vested (if any) after the Test Date and until 31 July 2017 ("**Exercise Period**").

Performance Hurdles

Performance hurdles, based on a Total Shareholder Return ("**TSR**") ranking in combination with a hurdle based on Return on Equity ("**ROE**") of the Company, have been determined by the Board as appropriate and in keeping with prevailing best practice.

Accordingly, vesting of the Performance Rights is subject to:

- (a) the Company achieving a minimum average ROE over the Performance Period of 18.5%, based upon the ROE for each financial year in the Performance Period. The ROE for each financial year in the Performance Period is calculated as the Company's (i) profit after tax divided by (ii) the average equity, for that financial year; and
- (b) the TSR ranking of the Company over the Performance Period against 28 comparable companies ("**TSR Ranking Group**") being equal to or greater than 50%.

TSR is the total shareholder return (including dividends) over the Performance Period, and the Company's TSR ranking is the percentage ranking of the Company and each entity comprising the TSR Ranking Group, ranked in descending order, from highest to lowest, according to their respective TSRs for the Performance Period.

A list of the 28 comparable companies in the TSR Ranking Group can be located on the Company's website www.thorn.com.au.

The number of Performance Rights that vest at the Test Date (if any) depends upon the extent to which both of the performance hurdles have been met over the Performance Period. This is described in the following tables:

ROE Performance Hurdle

ROE for the Performance Period	% of Performance Rights that vest
At or less than 18.5%	0% (irrespective of the TSR Ranking)
Greater than 18.5%	Determined by the TSR vesting schedule below

TSR Performance Hurdle

TSR Ranking	% of Performance Rights that vest
Below the 50th percentile	0% (irrespective of the ROE Performance Hurdle)
At 50th percentile	50%
Between 50th percentile and 90th percentile	Straight line vesting between 50% and 100%
90th percentile or greater	100%

Lapse of Performance Rights/Board discretion

Unless the Exercise Period expires at an earlier date, the Performance Rights lapse on the latest of:

- (a) the expiry of 12 months after the death of the participant;
- (b) 1 July 2017 if the participant ceases to be employed due to total and permanent disablement and, if after 1 June 2017, the retirement, redundancy or termination of employment by the Company (other than termination by the Company for misconduct or breach of employment contract);
- (c) the last employment date where the participant ceases to be employed by the Company or any of its subsidiaries in any other circumstances (including resignation); and
- (d) if the Board extends the time during which the Performance Rights may be exercised, the expiry of that time.

The number of Performance Rights which may be exercised in the circumstances described in (b) above will be reduced pro-rata to reflect the period in which the participant remained employed prior to the Test Date.

The Board has discretion to determine that Performance Rights will vest and may be exercised by James Marshall in any period determined by the Board (including if there is a change of control of or takeover of Thorn).

The Board has the discretion to change the ROE percentage threshold at any time, including due to structural changes within the Company or strategic decisions taken by the Board that may affect the ROE calculation (for example due to a capital raising or refinancing conducted by the Company), or due to a material change in legislation or accounting standards.

Additional Information

The following additional information is provided in accordance with ASX Listing Rules and in connection with the approval sought under item 5 in this Notice of Annual General Meeting.

(a) Maximum number of securities

The maximum number of securities to be allocated as Performance Rights is 66,556. This is calculated based on the volume weighted average price of the shares of the Company over the 5 trading days prior to the reference date for grant of 1 July 2014, being \$2.1786 per share, and based on a total value of \$145,000.

(b) Price of securities

No amount will be payable by the participant to the Company for the grant of Performance Rights. However if the Performance Rights are granted to the approved nominee of the participant, 1% of the Performance Rights will be payable by the approved nominee to the Company.

The exercise price per Performance Right is nil.

(c) Persons who received securities under incentive plans since the last approval

Since the last approval of this item at the 2010 Annual General Meeting:

- (i) shareholders approved Mr John Hughes (the Company's former Managing Director/CEO) being granted 569,620 Performance Rights in December 2012, with a nil acquisition price, and Mr Hughes received 778,177 shares in the Company in respect of the exercise of Performance Rights; and
- (ii) Mr James Marshall (in his then capacity as a General Manager of Radio Rentals and not a director of the Company) was granted 189,873 Performance Rights in December 2012, with a nil acquisition price, and Mr Marshall received 181,562 shares in the Company in respect of Performance Rights.

(d) Eligible participants

Mr James Marshall is the only Executive Director of the Company and is the only director eligible to participate in the Performance Rights Plan.

(e) No loans given to acquire securities

No loan has been or will be given to James Marshall relating to the grant of Performance Rights under the Performance Rights Plan.

(f) Issue of securities

Following approval, the Company will issue the Performance Rights to James Marshall as soon as practicable following this 2014 Annual General Meeting, and in any event prior to 1 June 2017.

(g) Additional statements

Details of any Performance Rights issued under the Performance Rights Plan will be published in each annual report relating to a period in which Performance Rights

have been issued, and that approval for the issue of Performance Rights was obtained, if required, under ASX Listing Rule 10.14.

Any additional people who become entitled to participate in the Performance Rights Plan after this resolution is approved will not participate until approval is obtained, if required, under ASX Listing Rule 10.14.

Recommendation

Your Directors (other than James Marshall) unanimously recommend that you vote in favour of Resolution 3.

Item 6: Adoption of Remuneration Report (Resolution 4)

The Remuneration Report is set out, under the heading "Remuneration Report – Audited", on pages 7 to 18 of the Company's Annual Report for the year ended 31 March 2014. The Remuneration Report:

- (a) provides discussion on the "first strike" received by the Company at the 2013 Annual General Meeting in relation to its Remuneration Report for the year ended 31 March 2013 (see further below);
- (b) provides discussion of the board's policy on remuneration of directors and senior managers and the relationship between such policy and the Company's performance; and
- (c) sets out prescribed information in relation to the directors and senior managers, including their fixed remuneration and any performance related remuneration.

The Chair of the meeting will allow a reasonable opportunity for the shareholders as a whole at the meeting to ask questions about, or make comments on, the Remuneration Report.

Under section 250R(3) of the Corporations Act, the vote on the resolution to adopt the Remuneration Report is advisory only and does not bind the directors or the Company.

Recommendation

Your Directors unanimously recommend that you vote in favour of Resolution 4.

Impact of the First Strike received at the 2013 Annual General Meeting (AGM) and Board responses

Despite solid financial performance, at the 2013 Annual General Meeting the Company received 27.47% of votes cast against our Remuneration Report. In contrast, in 2012, only 1.5% of security holders voted against the Remuneration Report. This change in sentiment concerned the Board.

Response to the First Strike received in 2013

As part of the review post the 2013 Annual General Meeting, members of the Board including the Chairperson met with numerous stakeholders to discuss and understand their comments and concerns in respect of Thorn's remuneration arrangements. The Board appreciated the engagement with all stakeholders who have taken the time to share their views.

The issues identified by shareholders and their representatives in respect of the 2013 remuneration structure, the remuneration report and the actions taken by the Board to address these are:

STI disclosure including limits	Section 4.3.1 of the 2014 Remuneration Report provides comprehensive detail of the STI including, in particular, that no amount of STI is paid unless budgeted NPAT is achieved. Further, only 30% of the financial KPI is paid at target.
Retention payments to CEO	<p>During 2013 the Board were advised to ensure the CEO and his corporate knowledge was retained during a period of transition.</p> <p>A detailed explanation of the reasons for the retention payments to the CEO (CFO and COO) is set out in the 2014 Remuneration Report.</p>
LTI scheme structure	<p>The 2012 LTI grant has a performance period of 5 years and is only eligible to commence vesting on the 3rd anniversary if a ROCE gateway is met. Importantly, only once that gateway is met will the awards vest on the 3rd, 4th and 5th anniversary if relative TSR hurdles are achieved.</p> <p>No LTI was granted in the 2014 financial year.</p>
Fee cap increase	The fee pool for NEDs has ensured the Board had the capacity to recruit a new director.
Disclosure of comparator group	The comparator group for the LTI, and against which key management personnel remuneration is benchmarked, has been disclosed at www.thorn.com.au .

The board recognises its disclosure and explanation of the remuneration framework and rationale for its decisions did not meet shareholders' and their representatives' expectations in 2013.

At the time of the 2013 Annual General Meeting, the 2014 remuneration packages had already been determined and it was not possible to make significant changes to the 2014 financial year. The Board has undertaken a comprehensive review of the remuneration framework and structure and the disclosure of its current practices. The disclosure throughout the 2014 Remuneration Report seeks to transparently explain how the remuneration has been structured and the rationale for various remuneration decisions.

The action taken, and decisions being considered, by the board for the 2015 financial year include:

- (a) further benchmarking of KMP remuneration;
- (b) review and revision of the STI and LTI structure and framework with regard to:
 - (i) market and industry practice; and
 - (ii) more closely linking remuneration to Company strategy and shareholder interests in both the short and long term.

Details of any changes to the remuneration framework will be disclosed to the market, where required, and in the 2015 Remuneration Report, once approved by the Board.

As a consequence of the 27.47% votes received against the Remuneration Report at the 2013 Annual General Meeting, causing a "first strike" to be recorded, if 25% or more votes are received against the Remuneration Report at this 2014 Annual General Meeting, this would constitute a "second strike", and Resolution 5 will be put to the Meeting and voted on as required by section 250V of the Corporations Act (the "**Spill Resolution**"). See Item 7 under "Contingent Business" below.

As stated above, your Directors unanimously recommend that you vote in favour of Resolution 4.

CONTINGENT BUSINESS

Item 7: Board Spill Meeting Resolution (Resolution 5) (contingent upon outcome of Resolution 4)

This resolution is a contingent resolution and will only be put to the 2014 Annual General Meeting and voted on if 25% or more of the votes cast on Item 6 (Resolution 4) are cast against the adoption of the 2014 Remuneration Report, which means the Company would receive a "second strike". If less than 25% of votes are cast against the Remuneration Report at the 2014 Annual General Meeting, then there will be no "second strike" and Resolution 5 will not be put to the meeting.

If this Resolution 5 is passed and becomes effective, then it will be necessary for the Board to convene a further general meeting of shareholders of the Company ("**Spill Meeting**"), within 90 days of the 2014 Annual General Meeting in order to consider the composition of the Board.

If a Spill Meeting is held, each Non Executive Director who:

- (a) held office at the date when the Board resolution to approve the Directors' Report for the financial year ended 31 March 2014 was passed (being David Carter, Peter Henley, Joycelyn Morton and Stephen Kulmar); and
 - (b) continues in office at the date of the Spill Meeting,
- will automatically vacate office at the conclusion of the Spill Meeting unless they are willing to stand for re-election and are re-elected at that meeting.

Accordingly, if Mr Stephen Kulmar is elected by shareholders at the 2014 Annual General Meeting, he will still need to be re-elected at the Spill Meeting to remain in office after the Spill Meeting. The other Directors who will cease to hold office if they are not re-elected at the Spill Meeting are David Carter, Peter Henley and Joycelyn Morton.

The Corporations Act requires three directors to remain in office at all times. If following the Spill Meeting, the Company has fewer than three directors (including the Managing Director and any new directors), then the persons with the highest percentage of votes in favour of their election at the Spill Meeting is taken to be appointed, even if less than half the votes cast on the resolution were in favour of their appointment. If two or more persons have the same percentage of votes in favour of their appointment, the other Directors will choose one of those persons as the appointed director.

The impact of the Spill Resolution on the composition of the Board should be considered by shareholders. The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations recommend that in order to be able to discharge its mandate effectively, the Board should comprise directors possessing an appropriate range of skills and expertise. In addition, the Board should be large enough to incorporate a variety of perspectives and skills, and to represent the best interests of the Company as a whole.

If the Spill Resolution passes, there will be uncertainty as to the composition of the Board until the Spill Meeting is held. Any uncertainty relating to the composition of the Board may create instability within the Company and may have a negative effect on the Company's share price, and potentially on its operations.

The cost of convening the Spill Meeting will be borne by the Company. If the Company is required to hold another general meeting within 90 days of this meeting, this will involve some expense. Shareholders may vote against the adoption

of the Remuneration Report (Resolution 4) but may still vote against a Spill Meeting being held. This is a matter for shareholders' discretion.

If Resolution 5 is put to Shareholders and you want your Directors to continue as Directors, you should vote against the Spill Resolution (Resolution 5).

Recommendation

In light of the above factors, if Resolution 5 is put to shareholders, the Board unanimously recommends that shareholders vote **against** Resolution 5.

QUESTIONS AND COMMENTS ON MANAGEMENT OF THE COMPANY AND ITEMS OF BUSINESS

The Chair of the meeting will allow a reasonable opportunity for the shareholders as a whole at the meeting to ask questions about, or make comments on, the management of the Company and the items of ordinary and contingent business set out in the Notice of Annual General Meeting.

In addition, shareholders may submit written questions to the Company no later than the fifth business day before the day on which the meeting is held.

QUESTIONS TO THE AUDITOR

Any shareholder may submit to the Company a written question directed to the Company's auditor KPMG if the question is relevant to:

- (a) the content of the Auditor's Report to be considered at the meeting; or
- (b) the conduct of the audit of the annual Financial Report to be considered at the meeting.

Any relevant written question must be received by the Company no later than the fifth business day before the day on which the meeting is held.

The Chair of the meeting will allow a reasonable opportunity for the shareholders as a whole at the meeting to ask the auditor or the auditor's representatives questions relevant to:

- (a) the conduct of the audit;
- (b) the preparation and content of the Auditor's Report;
- (c) the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- (d) the independence of the auditor in relation to the conduct of the audit.

ATTACHMENT A - SUMMARY OF THE COMPANY'S 2010 PERFORMANCE RIGHTS PLAN

(See Item 4, Resolution 2 in the Explanatory Memorandum)

- (a) Under the Performance Rights Plan, the Board may grant Performance Rights to eligible employees (including Executive Directors) of Thorn (or any of its subsidiaries) determined by the Board.
- (b) The Board may determine the number and value of any Performance Rights to be granted under the Plan. Without limiting its discretion, the Board may also determine the exercise price, vesting conditions, exercise conditions, exercise period and any other terms applicable to a particular grant of Performance Rights in an invitation to an eligible employee.
- (c) Each Performance Right which has vested and not lapsed or expired entitles the participating employee to one fully paid ordinary share in the Company on exercise. Subject to the terms of grant, the Company may issue new shares or arrange a transfer or purchase of existing shares.
- (d) The Company may determine to issue shares to the participant or a trustee (to be held for and then transferred to the participant) or alternatively, it may acquire, or procure the trustee acquire shares to be held for the participant's benefit before it is transferred to the participant.
- (e) Without the prior approval of the Board, Performance Rights cannot be transferred, disposed of or be dealt with by a participant.
- (f) Shares to be delivered upon exercise of a Performance Right may be subject to disposal restrictions or forfeiture conditions determined by the Board at the time of grant.
- (g) Unless the exercise period set by the board expires at an earlier date or the Board determines otherwise in an invitation, Performance Rights will lapse on the latest of:
 - (i) expiry of 12 months after the participant's death, if death occurs before the Performance Rights would otherwise lapse;
 - (ii) expiry of 6 months after the date the participant ceases to be employed due to total and permanent disablement or redundancy;
 - (iii) expiry of 3 months after the date the participant's employer ceases to be a subsidiary of the Company;
 - (iv) the date the participant ceases to be employed for any other reason; or
 - (v) if the Board extends the time during which the Performance Right may be exercised (which cannot be later than the expiry of the exercise period), the expiry of that time.
- (h) Unexercised Performance Rights will also lapse if in the opinion of the Company, the participant has acted fraudulently or dishonestly.
- (i) Performance Rights do not carry entitlements to participate in new issues of securities made by Thorn, until the participant has validly exercised the Performance Rights and become a shareholder of the Company prior to the record date for the new issue. However, subject to the Listing Rules, adjustments may be made to the number of shares to which Performance Rights relate or the exercise price, to take into account changes to the capital structure of Thorn that occur by way of a pro rata issue or bonus issue respectively.
- (j) In any reorganisation of Thorn's issued capital, the number of Performance Rights may be adjusted to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital.
- (k) The Board may determine that any Performance Rights will become vested and may be exercised in any period, whether or not any or all applicable exercise conditions have been satisfied, including if there is a change of control of or takeover of Thorn.
- (l) Subject to paragraph (k), a Performance Right may only be exercised if:
 - (i) where the participant is an employee at the time of exercise, the Performance Right has vested at the time of exercise;

(ii) where:

- (A) the Participant's employment with a Thorn Group company ceases due to death, total and permanent disablement, redundancy or retirement; or
- (B) the Participant's employer (being a company other than the Company) ceases to be a Thorn Group company, whether or not after the cessation the Participant remains an employee of that company,

the Performance Right has vested on the employee's last employment date;

(iii) at the time of exercise:

- (A) the exercise period has commenced;
- (B) the Performance Right has not lapsed;
- (C) the exercise price (if any) has been paid; and
- (D) each exercise condition (if any) has been satisfied or waived; and

(iv) where the Participant is an individual, the Participant is not bankrupt and has not committed an act of bankruptcy and where the Participant is deceased, the Participant's estate is not bankrupt.

(m) A copy of the Thorn Group Performance Rights Plan Rules is available on the Company's website www.thorn.com.au.