

**Thorn Group Limited  
and its Controlled Entities  
ACN 072 507 147**

**Annual Financial Report  
31 March 2014**

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## **I. Directors' Report**

The directors present their report together with the financial report of Thorn Group Limited (the 'Company') and its controlled entities (together referred to as the 'consolidated entity') for the financial year ended 31 March 2014 and the auditor's report thereon.

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## I. Directors Information

<p><b>David Carter</b>  (Age 60)  Chairperson, Independent, Non-Executive</p>	<p><b>John Hughes</b>  (Age 62)  Managing Director</p>	<p><b>Joycelyn Morton</b>  (Age 55)  Independent, Non-Executive</p>
<p>Appointed 3 November 2006</p>	<p>Appointed 3 November 2006</p>	<p>Appointed 1 October 2011</p>
<p><b>Qualifications</b>  Bachelor of Economics, Bachelor of Law (Hons), Masters of Law, and a Bachelor of Civil Law</p>	<p><b>Qualifications</b>  Bachelor of Commerce</p>	<p><b>Qualifications</b>  Bachelor of Economics</p>
<p><b>Experience</b>  David is a lawyer and corporate advisor who was previously a partner of a major international law firm. David currently runs his own legal and corporate advisory practice. David has significant experience in corporate governance, M&amp;A, commercial and international law. David is a Member of the Australian Institute of Company Directors.</p>	<p><b>Experience</b>  John has over 35 years experience as a senior executive in a number of leading Australian and international companies including Rural Holding Limited, Thorn EMI Rentals Australasia, Sharp Corporation, Competitive Foods, and Grace Bros.   John is a Fellow of the Australian Institute of Company Directors.</p>	<p><b>Experience</b>  Joycelyn began her career with Coopers &amp; Lybrand (now PwC), before joining Woolworths Limited and later the Shell Group in Australia and the Netherlands.   She is a Fellow of CPA and ICAA in Australia, the Australian Institute of Company Directors and the Governance Institute of Australia.</p>
<p><b>Other current directorships</b></p>	<p><b>Other current directorships</b></p>	<p><b>Other current directorships</b>  Argo Investments Limited,  Noni B Limited  Snowy Hydro Limited</p>
<p><b>Former directorships</b>  Azure Healthcare Limited  Victorian Energy Network Corporation</p>	<p><b>Former directorships</b></p>	<p><b>Former directorships</b>  Crane Group Limited  Count Financial Limited</p>
<p><b>Interests in shares and options</b>  192,729 ordinary shares</p>	<p><b>Interests in shares and options</b>  3,429,113 ordinary shares</p>	<p><b>Interests in shares and options</b>  39,000 ordinary shares</p>

<p><b>Peter Henley</b>  (Age 67)  Independent, Non-Executive</p>	<p><b>Stephen Kulmar</b>  (Age 61)  Independent, Non-Executive</p>	<p><b>James Marshall</b>  (Age 41)  Executive</p>
<p>Appointed: 21 May 2007</p>	<p>Appointed: 15 April 2014</p>	<p>Appointed: 5 May 2014</p>
<p><b>Qualifications</b></p>	<p><b>Qualifications</b></p>	<p><b>Qualifications</b>  Dip. Financial Services</p>
<p><b>Experience</b>  Peter has had a long and distinguished career in financial services generally and in consumer and commercial finance in particular, having held senior management positions with AGC, Nissan Finance and most recently GE Money.</p> <p>Peter is a Fellow of the Australian Institute of Management and a member of the Australian Institute of Company Directors.</p>	<p><b>Experience</b>  Stephen is the former Managing Director and Chairman of IdeaWorks and is currently the Managing Director of Retail Oasis, a boutique retail marketing services company.</p> <p>Steve 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.</p>	<p><b>Experience</b>  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.</p> <p>James has extensive knowledge of the consumer leasing and receivables management industries and has been instrumental in driving the development and growth of Thorn's core Radio Rentals business since the IPO.</p> <p>Most recently as Chief Operating Officer, James has led the development and implementation of the Group's strategic initiatives in financing and receivables management.</p>
<p><b>Other current directorships</b>  AP Eagers Limited  MTA Insurances Limited</p>	<p><b>Other current directorships</b>  RCG Corporation Limited  Retail Oasis Pty Ltd</p>	<p><b>Other current directorships</b>  NA</p>
<p><b>Former directorship</b>  GE Motor Solutions Australia  GE Money Singapore and Malaysia.  United Financial Services Limited</p>	<p><b>Former directorship</b>  Charles Parsons Pty Ltd</p>	<p><b>Former directorships</b>  NA</p>
<p><b>Interests in shares and options</b>  60,278 ordinary shares</p>	<p><b>Interests in shares and options</b>  Nil ordinary shares</p>	<p><b>Interests in shares and options</b>  126,887 ordinary shares</p>

**Paul Lahiff**

(Age 61)

Independent, Non-Executive

Appointed: 21 May 2007

Retired: 22 August 2013

**Qualifications**

Bachelor of Science

**Experience**

Paul operates his own consultancy firm specializing in financial services strategy. He has over 30 years experience in the financial services industry and has held senior executive roles with Westpac Banking Corporation (in Sydney and London) and the credit union sector.

He is a Fellow of the Financial Services Institute of Australia (FINSIA) and is a member of the Australian Institute of Company Directors (AICD).

**Other current directorships**

**Former directorship**

**Interests in shares and options**

NA

## 2. Company Secretary

Peter Eaton joined the Company in 1999 and was the Company's Finance Manager before assuming the role of Group Financial Controller in 2005 and the positions of Chief Financial Officer and Company Secretary in August 2006. Peter's role encompasses Finance, Information Technology, Business Development and Risk Management. Peter holds a Bachelor of Commerce degree from the University of Western Sydney, is a member of CPA Australia and has undertaken the Senior Executive programme at London Business School.

## 3. 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 and Compliance Committee Meetings		Remuneration and Nomination Committee Meetings	
	A	B	A	B	A	B
John Hughes	13	13	5 <sup>a</sup>	5 <sup>a</sup>	6 <sup>a</sup>	6 <sup>a</sup>
David Carter	13	13	5	5	6	6
Joycelyn Morton	13	13	5	5	6	6
Peter Henley	13	13	5	5	6	6
Paul Lahiff	4	4	2	3	1	1

**A** – Number of meetings attended

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

- (a) Mr John Hughes was not a member of the Audit Risk and Compliance Committee or the Remuneration and Nomination Committee but attended the meetings by invitation.
- (b) Mr Stephen Kulmar was appointed as a non-executive director on 15 April 2014.
- (c) James Marshall was appointed as an executive director on 5 May 2014.

## 4. Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

### 4.1. Board of Directors

#### **Role of the Board**

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

In order to ensure that the Board functions and responsibilities are clearly identified, the Company has adopted a formal Board Charter.

A copy of the Board Charter is located on the Company's website ([www.thorn.com.au](http://www.thorn.com.au)).

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

#### **Board Processes**

To assist in the execution of its responsibilities, the Board has established an Audit, Risk and Compliance Committee and a Remuneration and Nomination Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds scheduled meetings each year, 10-14 per annum, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise. The Board Charter requires the full Board to meet at least once per year to review the performance of the directors, committees, and senior executives, as well as, the relationship between the Board and management and matters of general corporate governance.

The agenda for Board meetings is prepared in conjunction with the Chairperson, Managing Director and Company Secretary. Standing items include the divisional report, finance report, strategic matters, governance, compliance and continuous disclosure. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.



## **Director and Executive Education**

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy, the culture and values of the Company, and the expectations of the Company concerning performance of directors. In addition, Directors are also educated regarding meeting arrangements and director interaction with each other, senior executives and other stakeholders. Directors also have the opportunity to visit the Company's facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Company also has a formal process to educate new senior executives upon taking such positions. The induction program includes reviewing the Company structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the Board.

## **Independent Professional Advice and Access to Company Information**

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with consultation. A copy of the advice received by the director is made available to all other members of the Board.

## **Composition of the Board**

The names of the directors of the Company in office at the date of this report, specifying which are independent, are set out on pages 3 to 5 of this report. The composition of the Board is determined using the following principles:

- a minimum of three directors, with a broad range of expertise both nationally and internationally;
- a majority of independent non-executive directors;
- a majority of directors having extensive knowledge of the Company's industries, and/or extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- a non-executive independent director as Chairperson; and
- directors are subject to re-election every three years (except for the Managing Director).

The Board considers the mix of skills and diversity of Board members when assessing the composition of the Board. The Board assesses existing and potential directors' skills to ensure they have appropriate industry expertise in the Company's operating segments.

The Board considers the diversity of existing and potential directors to ensure they are in-line with the geographical and operational segments of the Company. The Board's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity which mirrors the environment in which the Company operates.

An independent director is a director who is not a member of management (a non-executive director) and who:

1. holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;
2. has not within the last three years been employed in an executive capacity by the Company or a related body corporate or has become a director within three years of ceasing to hold any such employment;
3. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Company member or an employee materially associated with the service provided;
4. is not a material supplier or customer of the Company or another member of the consolidated entity, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
5. has no material contractual relationship with the Company or a related body corporate other than as a director of the Company; and
6. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board considers, 'material', in this context, to be where any director-related business relationship has represented, or is likely in future to represent the lesser of at least ten per cent of the relevant segment's or the director-related business' revenue. The board considered the nature of the relevant industries' competition and the size and nature of each director-related business relationship, in arriving at this threshold.

Applying these criteria, the Board is satisfied that David Carter, Peter Henley, Joycelyn Morton and Stephen Kulmar are independent. In accordance with the ASX Corporate Governance Guidelines, the Chairperson is an independent director, and the positions of Managing Director and Chairperson are held by different directors.

#### **4.2. Remuneration and Nomination Committee**

The Remuneration and Nomination Committee has a documented charter, approved by the Board. All members are non-executive directors with a majority being independent. The Remuneration and Nomination Committee assists the Board in its oversight responsibilities by monitoring and advising on:

- remuneration packages of senior executives, non-executive directors and executive directors;
- share option schemes and incentive performance packages;
- executive contracts;
- recruitment, retention and termination policies relating to the Board and senior executives; and
- monitoring the size and composition of the Board.

The members of the Remuneration and Nomination Committee during the year were:

- David Carter (Chairperson) – Independent, Non-Executive
- Peter Henley – Independent, Non-Executive
- Joycelyn Morton – Independent, Non-Executive
- Paul Lahiff – Independent, Non-Executive (Retired 22 August 2013)

The Managing Director, John Hughes, is also invited to Remuneration and Nomination Committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

Stephen Kulmar was appointed the Chairperson on the Remuneration and Nomination Committee on 15 April 2014.

From time to time, the Committee takes advice from external consultants to identify potential candidates for the Board. The Committee makes recommendations to the Board on the candidates, which votes on them. The Board then appoints the most suitable candidates. Board candidates must stand for election at the general meeting of shareholders immediately following their appointment.

Korn Ferry and Heidrick and Struggles were engaged during the financial year by the Board to assist in the recruitment of a Non-Executive Director. Fees of \$93,925 were incurred.

Korn Ferry were engaged during the financial year by the Board to assist in the recruitment of a new Managing Director and Chief Executive Officer. Fees of \$165,962 were incurred.

The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other boards, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The Remuneration and Nomination Committee meets at least three times a year and as required. The Committee met six times during the year and Committee members' attendance record is disclosed in the table of directors' meetings on page 6.

### 4.3. Remuneration Report – Audited

The directors are pleased to present the remuneration report setting out the remuneration information for key management personnel (KMP), for the year ended 31 March 2014 and is prepared in accordance with section 300A of the Corporations Act 2001.

The KMP of the Company and the consolidated entity for the year ended 31 March 2014 were:

#### Directors

David Carter  
Peter Henley  
Jocelyn Morton  
Paul Lahiff (retired 22 August 2013)

#### Senior Executives

John Hughes	Chief Executive Officer (CEO)
James Marshall	Chief Operating Officer (COO)
Peter Eaton	Chief Financial Officer (CFO)

### 2013 Annual General Meeting (AGM) First Strike

Despite solid financial performance, at the 2013 AGM 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.

As part of the review post the 2013 AGM, members of the Board including the Chairperson met with numerous stakeholders to discuss 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 this 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	During 2013 the Board were advised to ensure the CEO and his corporate knowledge was retained during a period of transition.  A detailed explanation of the reasons for the retention payments to the CEO (CFO and COO) is set out in this report.
LTI scheme structure	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.  No LTI was granted in the 2014 year.
Fee cap increase	The fee pool for NEDs has ensured the Board had the capacity to recruit a new director.

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Disclosure of comparator group	The comparator group for the LTI, and against which KMP remuneration is benchmarked, has been disclosed at <a href="http://www.thorn.com.au">www.thorn.com.au</a> .
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The board recognises its disclosure and explanation of the remuneration framework and rationale for its decisions did not meet shareholder's and their representative's expectations in 2013.

At the time of the 2013 AGM, the 2014 remuneration packages had already been determined and it was not possible to make significant changes for this year. The board has undertaken a comprehensive review of the remuneration framework and structure and the disclosure of its current practices. The disclosure throughout this 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:

- Further benchmarking of KMP remuneration; and
- Review and revision of the STI and LTI structure and framework with regard to:
  - Market and industry practice; and
  - 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.

**2014 Remuneration highlights**

CEO retirement	<ul style="list-style-type: none"> <li>John Hughes advised the Board of his retirement in November 2013, effective 30 June 2014.</li> </ul>
Appointment of new CEO	<ul style="list-style-type: none"> <li>James Marshall, previously Chief Operating Officer was appointed to replace John Hughes as Chief Executive Officer and Managing Director effective 1 June 2014.</li> <li>Mr Marshall's annual remuneration was set at the time of his appointment and is detailed on page 21.</li> </ul>
Senior executive pay freeze	<ul style="list-style-type: none"> <li>Senior executives and General Manager salaries did not receive any fixed pay or variable remuneration increases in the 2014 financial year except where there was a change in responsibility.</li> </ul>
Short term incentives (STI) reflect on target performance for 2014	<ul style="list-style-type: none"> <li>2014 financial performance was ahead of both the prior comparative period and budget.</li> <li>The result was however impacted by the Company's investment in new business opportunities.</li> <li>Consequently the average short term incentive is at the bottom of the range.</li> </ul>
Long term incentives (LTI)	<ul style="list-style-type: none"> <li>The final tranche of the 2010 plan was calculated and paid during the year. Any performance rights that did not vest were forfeited.</li> <li>There was no grant of LTI during the 2014 year.</li> </ul>
Senior Executive retention payments	<ul style="list-style-type: none"> <li>A retention payment of \$150,000 was paid to John Hughes, CEO</li> <li>A retention payment of \$50,000 was paid to James Marshall, COO and Peter Eaton, CFO.</li> <li>This is explained on page 18 and 19.</li> </ul>
2013 AGM remuneration vote first strike	<ul style="list-style-type: none"> <li>A first strike was registered after 27.47% voted against the remuneration report as compared to 1.5% in 2012.</li> </ul>

### 4.3.1. Principles of remuneration

The remuneration framework is set out to ensure rewards are appropriate for results achieved and are aligned to corporate strategic goals and shareholder wealth creation. The Board and Remuneration and Nomination Committee ensure sound remuneration governance practice, that KMP remuneration is competitive and transparent, whilst aligning shareholder interests through creation of sustainable growth and ensuring rewards reflect actual performance.

Remuneration levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives. Independent advice is obtained on the appropriateness of remuneration packages, given trends in comparable companies and the objectives of the Company's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the executive;
- the executive's ability to influence the relevant performance; and
- the consolidated entity's performance including:
  - the consolidated entity's earnings;
  - the growth in share price and delivering constant returns on shareholder wealth; and
  - the amount of incentives within each executive's compensation.

Fixed remuneration	STI	LTI
<ul style="list-style-type: none"> <li>• Includes base salary, superannuation and fringe benefits</li> <li>• Set with reference to the market, internal relativities, qualifications, skills, performance and experience</li> <li>• Reviewed annually<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Annual cash payment</li> <li>• Eligibility for payment depends on the Company achieving its budgeted NPAT as well as achievement against individual KPIs</li> <li>• KPIs are set at the start of each financial year</li> </ul>	<ul style="list-style-type: none"> <li>• The LTI is a performance rights scheme with a 5 year vesting period</li> <li>• No LTI vests if a ROCE gateway hurdle is not met</li> <li>• If the ROCE gateway hurdle is met, vesting of the performance rights depends on the Company's TSR performance relative to a peer group<sup>1</sup>.</li> </ul>

<sup>1</sup>Remuneration is reviewed annually against comparable ASX listed entities. A list of these entities is available on the Thorn website ([www.thorn.com.au](http://www.thorn.com.au))

The performance based STI and LTI components are described in more detail below.

### i) Short Term Incentives

The STI is an annual cash incentive reviewed by the Board against operational and financial Key Performance Indicators (KPIs) for the financial year. The following table outlines the major features of the 2014 STI:

Features	Description
Funding of the STI	<ul style="list-style-type: none"> <li>• The STI pool is funded when the Company achieves its budgeted NPAT</li> <li>• No STI is payable if the Company does not meet its budgeted NPAT</li> </ul>
Minimum requirements	<ul style="list-style-type: none"> <li>• No amount of STI is paid if budgeted NPAT is not met</li> </ul>
STI that can be earned	<ul style="list-style-type: none"> <li>• Below target performance - nil</li> <li>• On target performance – 30 per cent of fixed base</li> <li>• Maximum STI for stretch performance – 100 percent of fixed base</li> <li>• A sliding scale is applied when performance is between “target” and “stretch”</li> </ul>
What is target performance?	<ul style="list-style-type: none"> <li>• Target performance is budget NPAT</li> </ul>
What is stretch performance?	<ul style="list-style-type: none"> <li>• Stretch performance is when actual NPAT is equal to or greater than 125% of budget NPAT</li> </ul>
KPIs	<ul style="list-style-type: none"> <li>• Individual KPIs are set at the beginning of each financial year comprising financial and non-financial measures</li> </ul>
Weighting of KPIs	<ul style="list-style-type: none"> <li>• 70 per cent relates to financial KPIs</li> <li>• 30 per cent relates to non-financial KPIs</li> </ul>
What is the financial KPI?	<ul style="list-style-type: none"> <li>• Budgeted NPAT</li> </ul>
What are the non-financial KPIs?	<ul style="list-style-type: none"> <li>• The non-financial KPIs are agreed with the Board at the start of the financial year</li> <li>• Vary with position and responsibility</li> <li>• The KPIs relate to people, customer satisfaction, strategy, systems, risk and staff development</li> </ul>
Performance period	<ul style="list-style-type: none"> <li>• 1 April 2013 to 31 March 2014</li> </ul>
Assessment & Approval	<ul style="list-style-type: none"> <li>• At the end of the financial year, the Remuneration and Nomination Committee assesses the actual performance of the consolidated entity, and each individual's performance against the KPI's to determine how much of the bonus pool is payable.</li> <li>• The Board has the discretion to take into account unbudgeted</li> </ul>



	<p>extraordinary items approved by the Board.</p> <ul style="list-style-type: none"> <li>• The performance evaluation in respect of the year ended 31 March 2014 has taken place in accordance with this process. The Remuneration and Nomination Committee recommends the cash incentive to be paid to the individuals for approval by the Board.</li> </ul>
2014 performance	<ul style="list-style-type: none"> <li>• The financial hurdle was met</li> <li>• The amounts payable to KMP are detailed on page 26</li> </ul>
Deferred component	<ul style="list-style-type: none"> <li>• The Board has determined that it is not appropriate to introduce a deferral due to: <ul style="list-style-type: none"> <li>• The nature of the business is such that it is very difficult to shift profit between years;</li> <li>• The profit budget is increased annually so that management is highly motivated to achieve those budgets out of annual revenues; and</li> <li>• The quality of earnings is high and the risk of deferral is low</li> </ul> </li> <li>• While the Board did not move to include a deferral of STI in 2014 and does not expect it will do so in 2015, it has determined to keep the matter under review as it moves forward with an overall review of the remuneration framework.</li> </ul>
Clawback provisions	<ul style="list-style-type: none"> <li>• The Board has not yet adopted a clawback policy as the Long Term Incentive, which vests over 3, 4 and 5 years provides the capacity to clawback a component of remuneration in the event of a matter of significant concern.</li> </ul>

## ii) Long Term Incentive (LTI)

The most recent grant of long-term incentives was in December 2012 in the form of performance rights. The grant is directly linked to the performance of the Company, the returns generated and relative increases in shareholder wealth. This structure is used to ensure appropriate alignment to shareholder value over a specified timeframe.

Performance rights provide the right to receive shares only if and when a particular performance based hurdle and vesting condition are met. The holders of the performance rights are entitled to receive one ordinary share per performance right.

During the 2014 financial year, the final tranche of the 2010 plan was due for testing. This was undertaken in June 2013. Shares were allotted to the participants of the scheme and any outstanding performance rights were forfeited. Details of the share allotted and rights forfeited are available on page 28.

No performance rights were granted during the 2014 financial year.

The following table sets out the key features of the LTI plan.

Features	Description
Instrument	<ul style="list-style-type: none"> <li>• Performance rights – zero exercise price options</li> </ul>
Maximum LTI award level	<ul style="list-style-type: none"> <li>• LTI awards are capped at 50% of fixed remuneration at grant date using the face value of the shares at grant date to calculate the number to be granted.</li> </ul>
Dividend treatment	<ul style="list-style-type: none"> <li>• No dividends are paid on unvested awards</li> </ul>
Share dilution limits	<ul style="list-style-type: none"> <li>• No share dilution limits are in place given the quantum of the LTI</li> </ul>
Gateway Hurdle	<ul style="list-style-type: none"> <li>• The average Return on Capital Employed (ROCE) for the measurement period must be equal to or greater than 20%</li> <li>• If ROCE &lt; 20%: no performance rights vest</li> <li>• If ROCE &gt; 20%: performance rights are able to vest subject to the performance hurdles (see below) being met</li> </ul>
Why ROCE was chosen	<ul style="list-style-type: none"> <li>• It is a key indicator of the quality and efficiency of the returns the consolidated entity is achieving and is aligned to shareholder wealth</li> </ul>
Why was ROCE set at 20%	<ul style="list-style-type: none"> <li>• While the 20% ROCE hurdle appears to be lower than the ROCE performance in the previous years, it appropriately reflects the change in business model</li> <li>• The Company's strategy to be a diversified financial services organisation has seen lease and loan receivables grow substantially but ahead of earnings performance</li> <li>• The Company has expanded its services to grow but margins will be lower than when the business was primarily Radio Rentals</li> <li>• The Remuneration and Nomination Committee and the Board therefore consider that the 20% ROCE hurdle is appropriate</li> <li>• It is important to recognise that 20% ROCE has been set as a gateway. It opens the gate for testing against TSR</li> <li>• The ROCE calculation will be audited</li> </ul>
Performance Hurdles	<ul style="list-style-type: none"> <li>• The company's TSR performance is measured against 30 comparable ASX listed securities (available at <a href="http://www.thorn.com.au">www.thorn.com.au</a>)</li> <li>• Where the Company's TSR performance is rated below the 50th percentile, no performance rights vest.</li> <li>• Proportionate vesting occurs if the Company is ranked at or above the 50th percentile until the 90th percentile, when 100% of the rights vest.</li> </ul>
Why TSR was chosen	<ul style="list-style-type: none"> <li>• It is widely accepted as an objective indicator of shareholder wealth criterion as it includes share price growth, dividends and other capital adjustments</li> </ul>

	<ul style="list-style-type: none"> <li>• TSR will be calculated by an independent expert</li> </ul>
Performance period	<ul style="list-style-type: none"> <li>• The performance period for the LTI is 5 years</li> </ul>
Vesting Dates	<ul style="list-style-type: none"> <li>• 1/3 of the grant vests at 3 years</li> <li>• 1/3 of the grant vests at 4 years</li> <li>• 1/3 of the grant vests at 5 years</li> </ul>
Testing	<ul style="list-style-type: none"> <li>• The LTI is currently structured to vest over 5 years to align with a shareholder's long term perspective</li> <li>• The Board believes it is appropriate to vest the LTI if the gateway hurdle and performance hurdle has been met over the 5 year period notwithstanding that it may not have been met at 3 or 4 year test dates</li> <li>• The current structure ensures the executive team remains focussed on improving shareholder returns over a 5 year period</li> </ul>
Termination	<ul style="list-style-type: none"> <li>• In the event that a participant's employment is terminated, any unvested performance rights will lapse</li> </ul>
Clawback provisions	<ul style="list-style-type: none"> <li>• There are no clawback provisions</li> <li>• The LTI has an extended vesting period, vesting in 3, 4 and 5 years</li> <li>• The extended vesting period provides the capacity to clawback a component of remuneration in the event of a matter of significant concern</li> </ul>

### CEO retention and retirement payments

The Board recognised that it needed to retain the services of the CEO, John Hughes during a period of strategic growth and expansion after the expiry of his contract. The Board recognised that the LTI grant could not effectively retain the CEO due to his contractual term only being for two years, therefore, sought his agreement to remain with the Company notwithstanding he would not be eligible for his LTI.

Institutional shareholders advised they were concerned that the corporate knowledge and expertise of the CEO would be lost to the Company. They recommended the Board should take steps to retain the CEO.

In determining the retention structure, the Board recognised that as the CEO was already a significant shareholder and his interests were strongly aligned to the broader shareholder interests. It was resolved that retention and retirement payments were appropriate and to be paid in cash. Therefore, in the 2014 financial year the CEO was paid a retention payment of \$150,000.

In the 2015 financial year the CEO will be paid a retention payment of \$37,500 and a retirement benefit of \$300,000.

### **COO and CFO retention payments**

The Board recognised that the continuing arrangement with the CEO may be perceived to impact the career paths of the COO and CFO, both of whom the Board considered key to the ongoing success of the Company.

The Board recognised that the LTI grant in December 2012 did not have a strong retention effect as there were no other LTI amounts vesting before May 2015. In order to address this, the COO and CFO would receive retention payments.

In the 2014 financial year, the COO and CFO were paid an additional \$50,000 each.

In the 2015 financial year, the COO and CFO will be paid a further \$100,000 each should they remain with the Company until 31 March 2015.

### **Services from Remuneration Consultants**

The Remuneration and Nomination Committee engaged Executive Research Services (ERS) as remuneration consultant to the Board to review the amounts and elements of the KMP remuneration and provide recommendations in relation thereto. ERS provided valuable market analysis in relation to the remuneration of the KMP, non-executive directors and other general managers of the consolidated entity.

The Remuneration and Nomination Committee also engaged KPMG Executive Remuneration Advisory to provide advice on the remuneration framework and the remuneration report. KPMG did not provide remuneration recommendations pursuant to the Corporations Act.

Consultant fees incurred for the financial year were \$21,725 to ERS and \$40,000 to KPMG. Other fees paid to KPMG are set out in the financial statements.

The Board is satisfied that the remuneration recommendations made by ERS and the advice provided by KPMG Executive Remuneration Advisory were free from undue influence by members of the KMP about whom the recommendations may relate as the consultants were directly engaged by and reported to the Board.

### Consequences of Performance on Shareholder's Wealth

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.

The profit performance for the 2014 was marginally better than 2013 and better than budget. The STI financial performance hurdle was met.

	2014	2013	2012	2011	2010
Profit attributable to owners of the company	\$28,151,000	\$28,021,000	\$27,849,000	\$22,038,000	\$19,495,000
Basic EPS <sup>1</sup>	18.94c	19.11c	19.24c	16.84c	15.12c
Dividends paid	\$15,563,000	\$14,656,000	\$12,272,000	\$9,464,000	\$7,059,000
Dividends per share	10.50c	10.00c	8.95c	7.30c	6.32c
Change in share price	0.09	0.49	(0.62)	1.07	0.63
Return on capital employed <sup>2</sup>	21.83%	24.78%	30.34%	35.02%	30.72%
Return on equity <sup>3</sup>	26.17%	28.14%	33.00%	36.97%	32.59%

<sup>1</sup> Although NPAT increased in 2014, Basic EPS decreased due to an additional 1,782,014 shares being issued under the Dividend Reinvestment Plan.

<sup>2</sup> Calculated as total profit before interest and tax divided by the average capital employed.

<sup>3</sup> Calculated as total profit before interest and tax divided by the average equity.

**Senior Executive Contract details**

<b>Name</b>	<b>Title</b>	<b>Term / Notice</b>	<b>Details</b>
John Hughes	Chief Executive Officer and Managing Director	31 March 2015 6 month notice period	Annual base salary of \$617,000 inclusive of superannuation. A tenure bonus of \$37,500 is payable at 30 June 2014. A termination benefit of \$300,000 is payable.
James Marshall	Chief Operating Officer	Ongoing 3 month notice period	Annual base salary of \$309,000 inclusive of superannuation. A retention payment of \$100,000 is payable at 31 March 2015. No termination benefit is payable.
Peter Eaton	Chief Financial Officer	Ongoing 3 month notice period	Annual base salary of \$309,000 inclusive of superannuation. A retention payment of \$100,000 is payable at 31 March 2015. No termination benefit is payable.

James Marshall was appointed Chief Executive Officer and Managing Director from 1 June 2014 following the retirement of John Hughes. The remuneration details of James Marshall from 1 June 2014 are:

<b>Name</b>	<b>Title</b>	<b>Term / Notice</b>	<b>Details</b>
James Marshall	Chief Executive Officer and Managing Director	Ongoing 6 month notice period	Annual base salary of \$490,000 inclusive of superannuation. No termination benefit is payable. Eligible to participate in an STI and LTI plan.

**Non-Executive Directors**

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2013 AGM, is not to exceed \$650,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

The following fee structure was applicable for the financial years:

<b>Base fees per annum</b>	<b>2014</b>	<b>2013</b>
Chair of the Board	\$166,000	\$140,000
Directors	\$83,000	\$70,000
<b>Additional fees per annum</b>		
Chair of Audit, Risk and Compliance Committee	\$15,000	\$20,000
Member of the Audit, Risk and Compliance Committee	-	\$5,000
Chair of Remuneration and Nomination Committee	\$10,000	-
Member of the Remuneration and Nomination Committee	-	\$2,500

**Notes to the Non-Executive Directors fees**

- Non-executive directors do not receive performance-related remuneration and do not participate in employee share based payment schemes.
- The Chair of the Board was not paid an additional fee for undertaking the role of Chair of the Remuneration and Nomination Committee.
- No Committee fees were paid in 2014 as they were incorporated into the base fees.
- The above fees do not include superannuation.

### 4.3.2 Directors' and Executive Officers' Remuneration (Company and Consolidated – Audited)

Details of the nature and amount of each major element of remuneration of each director of the Company and other KMP of the consolidated entity are:

2014 Name	Short-term		Post-employment		Long-term benefits		Share-based payments		Total \$
	Salary & fees \$	STI cash bonus \$(A)	Non-monetary benefits \$(B)	Super-annuation benefits \$	Long Service Leave \$	Retention payment \$	Options and rights \$(C)		
<b>Non-Executive Directors</b>									
David Carter	166,000	-	-	15,259	-	-	-	-	181,259
Peter Henley	83,000	-	-	7,630	-	-	-	-	90,630
Joycelyn Morton	98,000	-	-	9,008	-	-	-	-	107,008
Paul Lahiff <sup>1</sup>	33,200	-	-	3,023	-	-	-	-	36,223
Subtotal non-executive directors	380,200	-	-	34,920	-	-	-	-	415,120
<b>Executive Directors</b>									
John Hughes	590,526	208,916	3,379	17,474	8,510	150,000	-	-	978,805
Subtotal Executive directors	590,526	208,916	3,379	17,474	8,510	150,000	-	-	978,805
<b>Total directors remuneration</b>	<b>970,726</b>	<b>208,916</b>	<b>3,379</b>	<b>52,394</b>	<b>8,510</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>1,393,925</b>
<b>Other Key Management Personnel</b>									
James Marshall	261,178	104,627	11,414	17,474	16,904	100,000	63,700	-	575,297
Peter Eaton	275,853	104,627	8,289	17,474	4,846	100,000	63,700	-	574,789
Subtotal other Key Management Personnel	537,031	209,254	19,703	34,948	21,749	200,000	127,400	-	1,150,085
<b>Total Key Management Personnel compensation (group)</b>	<b>1,507,757</b>	<b>418,170</b>	<b>23,082</b>	<b>87,342</b>	<b>30,259</b>	<b>350,000</b>	<b>127,400</b>	<b>-</b>	<b>2,544,010</b>

<sup>1</sup> The remuneration for Paul Lahiff for 2014 reflects remuneration during the period to 22 August 2013, the date of his retirement.



Thorn Group Limited and its Controlled Entities  
**Directors' Report**  
For The Year Ended 31 March 2014

2013	Short-term		Post-employment	Long-term benefits		Share-based payments		Total
	Salary & fees	STI cash bonus	Non-monetary benefits	Super-annuation benefits	Long Service Leave	Retention payment	Options and rights	
Name	\$	\$(A)	\$(B)	\$	\$	\$	\$(C)	\$
<b>Non-Executive Directors</b>								
David Carter (Chairman)	147,500	-	-	13,275	-	-	-	160,775
Peter Henley	72,577	-	-	6,532	-	-	-	79,109
Joycelyn Morton	89,539	-	-	8,059	-	-	-	97,598
Paul Lahiff	77,346	-	-	6,961	-	-	-	84,307
Subtotal non-executive directors	386,962	-	-	34,827	-	-	-	421,789
<b>Executive Directors</b>								
John Hughes	591,025	200,000	3,556	16,283	7,845	-	108,793	927,502
Subtotal Executive directors	591,025	200,000	3,556	16,283	7,845	-	108,793	927,502
<b>Total directors remuneration</b>	<b>977,987</b>	<b>200,000</b>	<b>3,556</b>	<b>51,110</b>	<b>7,845</b>	<b>-</b>	<b>108,793</b>	<b>1,349,291</b>
<b>Other Key Management Personnel</b>								
James Marshall	236,506	93,000	11,414	16,283	2,191	-	31,354	390,748
Peter Eaton	267,371	105,000	13,387	16,283	7,235	-	36,264	445,540
Subtotal other Key Management Personnel	503,877	198,000	24,801	32,566	9,426	-	67,618	836,288
<b>Total Key Management Personnel compensation (group)</b>	<b>1,481,864</b>	<b>398,000</b>	<b>28,357</b>	<b>83,676</b>	<b>17,271</b>	<b>-</b>	<b>176,411</b>	<b>2,185,579</b>

The below table summarise KMP remuneration split by Fixed, Short Term and Long Term.

Name		Fixed %	At Risk – STI %	At Risk – LTI %	Total %
John Hughes	2014	63	37	n/a	100
	2013	66	22	12	100
James Marshall	2014	51	38	11	100
	2013	65	27	8	100
Peter Eaton	2014	52	37	11	100
	2013	65	27	8	100

#### Notes in relation to the Table of Directors' and Executive Remuneration

- A. The short term incentive bonus for 2014 is for performance during the financial year.
- B. Non-monetary benefits as disclosed in both tables includes cost of providing a motor vehicle and any fringe benefits tax attributable thereto.
- C. The fair value of the performance rights is calculated at the date of grant using a Monte Carlo simulation model and allocated to each reporting period evenly 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. In valuing the performance rights, market conditions have been taken into account. The following factors and assumptions were used in determining the fair value of performance rights at grant date.

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
7 Dec 2012	1 Jun 2015	31 Dec 2017	\$1.40	Nil	\$1.910	32.0%	2.7%	6.0%
7 Dec 2012	1 Jun 2016	31 Dec 2017	\$1.28	Nil	\$1.910	32.0%	2.7%	6.0%
7 Dec 2012	1 Jun 2017	31 Dec 2017	\$1.15	Nil	\$1.910	32.0%	2.7%	6.0%

### 4.3.3 2013 STI outcomes - audited

The STI pool was funded as the Company achieved its NPAT target. KMP achieved their personal KPIs which related to new systems implementation for Radio Rentals, development of new offerings and further development of Company strategic objectives. No bonus payments were forfeited in the period.

<b>Short Term Incentive</b>			
	<b>Salary (\$)</b>	<b>Bonus paid as a % of maximum opportunity</b>	<b>Included in Remuneration (\$)</b>
<b>Directors</b>			
John Hughes	617,000	33.86%	208,916
<b>Executives</b>			
James Marshall	309,000	33.86%	104,627
Peter Eaton	309,000	33.86%	104,627

#### 4.3.4 Equity Instruments

##### Performance rights granted as compensation in the year

No performance rights were granted during the year ended 31 March 2014.

##### Analysis of performance rights available for vesting

Details of the performance rights available for vesting to each director of the Company and other KMP are detailed below:

	Performance Rights Granted		Financial Years in Which Grants Vests	Values Yet to Vest \$	
	Number	Date		Min (a)	Max (b)
<b>Executive</b>					
James Marshall	63,291	7 Dec 2012	2015 – 2018	Nil	N/A
	63,291	7 Dec 2012	2016 – 2018	Nil	N/A
	63,291	7 Dec 2012	2017 – 2018	Nil	N/A
Peter Eaton	63,291	7 Dec 2012	2015 – 2018	Nil	N/A
	63,291	7 Dec 2012	2016 – 2018	Nil	N/A
	63,291	7 Dec 2012	2017 – 2018	Nil	N/A

- (a) 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.
- (b) The maximum value of the performance rights yet to vest is not 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.
- (c) The performance rights that did not vest will be retested at the next vesting date.
- (d) Due to his retirement, John Hughes' performance rights were forfeited in the period.
- (e) Due to their resignations Antoine Laval and Brenton Glaisters' performance rights were forfeited in the period.
- (f) The performance rights for Ian Scott were disclosed in the prior period as he was a key management person for the 2013 financial year.

### Analysis of Movements in Performance Rights

The movement during the reporting period, by value, of performance rights over ordinary shares in Thorn Group Limited held by each Company director and KMP are detailed below:

#### Value of Performance Rights

	Granted in year(a) \$	Exercised in year(b) \$	Forfeited in year(c) \$
John Hughes	-	170,649	1,268,074
James Marshall	-	39,819	18,099
Peter Eaton	-	56,884	25,855
	-	267,352	1,312,028

- (a) The fair value of the performance rights is calculated at the date of the grant based upon the Monte Carlo simulation model.
- (b) The value of performance rights exercised during the year is calculated as the market price of shares of the Company as at close of trade on the date the performance rights were exercised. The market price as at the close of trade on 17 June 2013 was \$2.09, the date the performance rights were exercised and ordinary shares were allotted.
- (c) The value of the performance rights forfeited during the year is calculated as the market price of the share of the Company as at the close of trade on the date the performance rights were forfeited.

#### 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 2013	Granted as Compensation	Exercised	Lapsed during the year	Held at 31 March 2014	Vested during the year
John Hughes <sup>1</sup>	688,384	-	81,650	606,734	-	81,650
James Marshall	217,585	-	19,052	8,660	189,873	19,052
Peter Eaton	229,461	-	27,217	12,371	189,873	27,217

<sup>1</sup> 569,620 performance rights of John Hughes lapsed during the year due to his planned retirement on 30 June 2014 and 37,114 lapsed due to the end of the 2010 plan.

#### 4.4 Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee has a documented charter, approved by the Board. The charter is available on the Company's website. All members are non-executive directors with a majority being independent. The Chairperson may not be the Chairperson of the Board. The Audit, Risk and Compliance Committee advises the Board on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

The members of the Audit, Risk and Compliance Committee during the year were:

- Joycelyn Morton (Chairperson) – Independent, Non-Executive
- David Carter – Independent, Non-Executive
- Peter Henley – Independent, Non-Executive
- Paul Lahiff – Independent, Non-Executive (Retired 22 August 2013)

The Company Secretary, Peter Eaton, acts as Secretary to the Committee.

The internal and external auditors, the Managing Director and the Chief Financial Officer are invited to Audit, Risk and Compliance Committee meetings at the discretion of the Committee. The Committee is required to meet at least twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 6.

The external auditor met with the Audit, Risk and Compliance Committee twice during the year without management being present.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the financial records of the Company and the consolidated entity for the financial year have been properly maintained, the Company's financial reports for the financial year ended 31 March 2014 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The responsibilities of the Audit, Risk and Compliance Committee include:

- reviewing the annual and half year financial reports and other financial information distributed externally;
- assessing management processes supporting external reporting;
- assessing corporate risk assessment processes;
- assessing the performance and objectivity of the internal audit function;
- establishing procedures for selecting, appointing and if necessary, removing the external auditor;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporation Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The Audit, Risk and Compliance Committee reviews the performance of the external auditors on an annual basis and meets with them during the year to:

- discuss the external audit, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend Board approval of the financial report; and
- review the results and findings of the external audit, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

## 4.5 Risk Management

### **Oversight of the Risk Management System**

The Board oversees the establishment, implementation and review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing all risks, including material business risks, for the consolidated entity (including sustainability risk). The Managing Director and the Chief Financial Officer have provided assurance, in writing to the Board, that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating effectively.

### **Risk Profile**

Management provide the risk profile on a six monthly basis to the Audit, Risk and Compliance Committee that outlines the material business risks to the Company. Risk reporting includes the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. The Audit, Risk and Compliance Committee reports the status of material business risks to the Board on a regular basis.

Material business risks for the Company may arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on the price of products and sales, difficulties in sourcing supply of products, environment, workplace health and safety, property, financial reporting and the purchase, development and use of information systems.

## **Risk Management, Compliance and Control**

The Company strives to ensure that its products and services are of the highest standard. The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude errors and irregularities. The Board's policy on internal control is comprehensive.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- financial exposures are controlled;
- workplace health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel;
- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- environmental regulation compliance.

## **Quality and Integrity of Personnel**

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

## **Financial Reporting**

The Managing Director and the Chief Financial Officer have provided assurance in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

## **Environmental Legislation**

The consolidated entity's operations are not subject to significant environmental regulations under either Commonwealth or State legislation. The Directors are of the belief that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any of those environmental requirements as they apply to the consolidated entity.

## **Internal Audit**

The internal auditors assist the Board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above mentioned compliance and control systems. The results of internal audits are reported on a monthly basis to the Board.



## **4.6 Ethical Standards**

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company and consolidated entity. In order to promote ethical and responsible decision making, the Company has implemented a Code of Conduct to guide the directors and senior executives. Further, the Company has implemented a formal Securities Trading policy in order to formalise the Company's position on employees trading in the Company's securities. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board reviews the Code of Conduct and processes are in place to promote and communicate these policies. Both of these policies are available on the Company's website.

### **Conflict of Interest**

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director-related entity transactions with the Company and the consolidated entity are set out in note 28 to the financial statements.

### **Code of Conduct**

The Company's Code of Conduct aims to maintain appropriate core Company values and objectives. The Company has advised each director, manager and employee that they must comply with the Code of Conduct.

The Company's Code of Conduct covers issues such as delivering shareholder value, managing conflicts of interest, confidentiality, fair and honest dealings, workplace health and safety, equal opportunity and compliance with laws. The Code encourages reporting of unethical behaviour. The Company has a Whistleblower Policy and a confidential whistleblowing service which provides its staff with an avenue to report suspected unethical, illegal or improper behaviour.

### **Securities Trading Policy**

The Company and the consolidated entity has a Securities Trading policy, which sets out the circumstances under which directors, senior executives, and employees of the Company and the consolidated entity may deal in securities with the objective that no director, senior executive or other employee will contravene the requirements of the Corporations Act 2001 or the ASX Listing Rules.

The policy outlines the restricted trading periods for the Company as the month immediately before the release of the Company's half yearly and yearly results.

The policy is reproduced in full on the Company's website.

### **Diversity Policy**

The Board is committed to having an appropriate blend of diversity on the Board and senior executive positions. The Board has established a policy regarding gender, age, ethnic and cultural diversity.

The consolidated entity's diversity performance is as follows:

Gender Representation	2014 Male	2014 Female	2013 Male	2013 Female
Board Representation <sup>1</sup>	83%	17%	80%	20%
Key Management Personnel Representation	100%	-	100%	-
Group Representation	53%	47%	52%	48%

<sup>1</sup> The change in Board representation in 2014 is a due to the CEO transition process.

#### 4.7. Communication with Shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases. The Continuous Disclosure Policy is available on the Company's website.

In summary, the Continuous Disclosure policy operates as follows:

- the policy identifies information that needs to be disclosed;
- the Managing Director, the Chief Financial Officer and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX;
- the full annual report provided via the Company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX;
- proposed major changes in the consolidated entity which may impact the share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website; and
- the external auditor attends the Annual General Meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The Company does not have a formal shareholder communication policy, however it provides information to shareholders via the Company's website, which has links to recent Company announcements and past annual reports, results presentations and various ASX pages, including the current share price.

The Board supports full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration Report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

## 5. Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the leasing of household products, leasing of motor vehicles, the provision of loans, equipment finance and the provision of receivables management services.

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

### 5.1. Operating and Financial Review

#### Overview of the Group

The Thorn Group is a diversified financial services company providing alternative financial solutions to consumers and businesses. Thorn operates through four core segments:

- Consumer leasing of household products through Radio Rentals and the leasing of motor vehicles through Rent Drive Buy.
- Credit management, debt recovery, credit information services, debt purchasing and other financial services through NCML.
- Equipment financing for small and medium enterprises through Thorn Equipment Finance.
- Personal loans through Thorn Financial Services.

#### Financial Performance

Revenue for the 2014 financial year increased by 16% on the previous corresponding period ("PCP"), growing from \$203,203,000 to \$234,855,000.

Revenue for the Consumer Leasing segment grew 16%, from \$170,020,000 to \$196,800,000 as Radio Rentals achieved 10 out of 12 record installation months. Operating lease revenue grew, primarily attributable to increased units on rent, most notably in the furniture category. The growth in finance lease revenue was driven by increased smartphone installations and the introduction of RTB 48 month contract. The introduction of the longer term made larger products and whole room packages more affordable. The change in mix impacted gross margin as a lower margin on sale for smartphones is realised.

Retention performance was again strong, with 48% of customers completing a Rent Try \$1 Buy® agreement taking another item.

Write-off performance remained consistent with prior year, however provisioning increased in-line with receivables growth. Costs increased in Radio Rentals as new stores operated and additional resources were required in the store network due to the growth in the number of units on rent.

Operating expenses for the consumer leasing segment also increased versus PCP as Rent Drive Buy continues in its trial phase.

Reported segment earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 3% from \$47,998,000 to \$49,450,000.

One-off factors impacted the underlying performance of the segment versus PCP. The table below shows the favourable impact of a large non-recurring debt sale in the PCP. In the current year, losses pertaining to the trial costs associated with Rent Drive Buy as well as depreciation and costs associated with the ERP implementation were incurred. Underlying EBITDA increased by 5.8%.

<i>In thousands of AUD</i>	<b>31 March 2014</b>	<b>31 March 2013</b>
Consumer Leasing reported EBITDA	49,450	47,998
Debt sale	-	(850)
Rent Drive Buy trial	239	136
ERP Implementation	358	-
<b>Consumer Leasing underlying EBITDA</b>	<b>50,047</b>	<b>47,284</b>

A restructure of the Credit Management segment commenced in the second half of the 2013 financial year. This restructure, in addition to improved operational performance resulted in a revenue increase of 9.2%, from \$18,874,000 to \$20,611,000. The uplift was driven by increased contingent collections and PDL revenue. Segment EBITDA increased by 10.4% from \$3,670,000 to \$4,051,000.

One-off factors impacted the underlying performance of the segment versus PCP. The table below shows the favourable impact of a large non-recurring debt sale. Underlying EBITDA grew by 4%.

<i>In thousands of AUD</i>	<b>31 March 2014</b>	<b>31 March 2013</b>
Credit Management reported EBITDA	4,051	3,670
Debt sale	(810)	(554)
<b>Credit Management Underlying EBITDA</b>	<b>3,241</b>	<b>3,116</b>

Revenue for Thorn Equipment Finance ("TEF") grew by 35.7% from \$6,129,000 to \$8,317,000. The revenue increase is attributable to the growth in receivables, which increased to \$63,551,000 versus \$46,521,000 in the PCP. Expenses were in-line with PCP, resulting in segment EBITDA increasing by 182% from \$1,051,000 to \$2,964,000.

Thorn Financial Services ("TFS") revenue increased by 18% from \$7,920,000 to \$9,346,000. The interest revenue increase was attributable to growth in receivables, from \$21,754,000 to \$28,431,000 which was driven by the expanded range of offers under the Thorn Money brand.

Bad debts slightly increased as a percentage of the receivables, whilst overheads were higher than PCP as a result of business development initiatives which saw the addition of key personnel. Consequently, segment EBITDA decreased by 27.6% from \$1,637,000 to \$1,185,000.

Corporate expenses were up 26.9% from \$8,302,000 to \$10,532,000 primarily increasing in-line with business growth, recruitment and retirement costs in relation to the CEO.

Finance expenses increased by 14.7% due to higher borrowings compared to the PCP. Borrowings as at 31 March 2013 were \$28,900,000 versus \$40,496,000 as at 30 March 2014.

As a result, consolidated profit before income tax increased by 0.6% from \$40,788,000 to \$41,032,000. Net profit after tax increased by 0.5% from \$28,021,000 to \$28,151,000.

One-off factors impacted the underlying performance of the consolidated entity versus PCP. The table below shows the favourable impact of a large non-recurring debt sale in the PCP and the loss pertaining to the trial costs associated with Rent Drive Buy. Underlying NPAT increased 4.5%.

<i>In thousands of AUD</i>	<b>31 March 2014</b>	<b>30 March 2013</b>
Reported NPAT	28,151	28,021
Debt sale	(810)	(1,404)
Rent Drive Buy trial costs	239	136
CEO termination/recruitment costs	500	-
Software	358	-
Tax effect	(86)	380
<b>Underlying NPAT</b>	<b>28,352</b>	<b>27,133</b>

## Financial Position

The key assets of the consolidated entity grew during the period.

The consumer lease receivables book grew by 31% to \$125,356,000 due to increased installations of smartphones and introduction of RTB 48 month contract. Commercial lease receivables grew by 37% to \$63,551,000 through the continued development of strategic partnerships with brokers and introducers. The consumer finance book grew 31% to \$28,226,000.

## Capital Management

Net cash from operating activities increased from \$93,328,000 to \$104,025,000. This was primarily attributable to increased receipts from customers in all segments.

Borrowings increased to \$40,496,000. Net debt to equity remained relatively low at 22.2%. The consolidated entity continues to meet all debt covenants.

## Dividends paid or recommended

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

	Cents per share	Amount \$'000s	Franked / unfranked	Date of payment
<b>2014</b>				
Final 2013	6.0	8,863	Franked	18-Jul-13
Interim 2014	4.5	6,700	Franked	17-Jan-14
Total amount		15,563		

After balance date the following dividend was proposed by the directors.

Final 2014	6.5	9,717	Franked	17-Jul-14
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## **Risks**

Credit risk is the most significant risk to the consolidated entity. Credit risk grew in-line with the growth of the loan and lease receivables in all segments, except TFS where bad debts increased slightly as a percentage of the loan receivables.

## **Legislative changes**

The consolidated entity continued to be involved in discussions with Federal Treasury in relation to the enhancements to the National Consumer Credit Protection legislation, which primarily involves more disclosure around financial service products. No changes are expected in the short term.

A review of Centrepay was undertaken by the Federal Government and a draft paper was released in August 2013. The consolidated entity does not expect any changes to its current arrangements in the short term.

## **Strategic Initiatives**

The following initiatives, which include the introduction of new products and the further expansion of each operating segment continues the consolidated entity's strategy of providing alternative financial solutions.

- Thorn Money was launched as an online brand offering unsecured loans to \$15,000 and secured loans to \$25,000;
- The first Cashfirst store opened in Campbelltown, NSW;
- A new website was launched in October for Radio Rentals, the primary brand of the Consumer Leasing segment, providing a significantly better platform for Radio Rentals to attract new customers;
- An extended term, 48 month Rent Try \$1 Buy<sup>®</sup> contract was launched in November, providing our customers with additional payment flexibility; and
- Work relating to branding and products for Radio Rentals and TFS continues at various phases of the research and development cycle.

## **Outlook**

Despite soft economic conditions, the consolidated entity is trading solidly. The continued investments in new business opportunities are expected to deliver solid NPAT growth.

## 5.2. Shareholder returns

	2014	2013	2012	2011	2010
Profit attributable to owners of the company	\$28,151,000	\$28,021,000	\$27,849,000	\$22,038,000	\$19,495,000
Basic EPS <sup>1</sup>	18.94c	19.11c	19.24c	16.84c	15.12c
Dividends paid	\$15,563,000	\$14,656,000	\$12,272,000	\$9,464,000	\$7,059,000
Dividends per share	10.50c	10.00c	8.95c	7.30c	6.32c
Change in share price	0.09	0.49	-0.62	1.07	0.63
Return on capital employed <sup>2</sup>	21.83%	24.78%	30.34%	35.02%	30.72%
Return on equity <sup>3</sup>	26.17%	28.14%	33.00%	36.97%	32.59%

<sup>1</sup> Although NPAT increased in 2014, Basic EPS decreased due to an additional 1,782,014 shares being issued under the Dividend Reinvestment Plan.

<sup>2</sup> Calculated as total profit before interest and tax divided by the average capital employed.

<sup>3</sup> Calculated as total profit before interest and tax divided by the average equity.

## 6. Events Subsequent To Reporting Date

Subsequent to the reporting date, the Board of Thorn Group Limited appointed James Marshall as an executive director on 5 May 2014. James will become Chief Executive Officer and Managing Director on 1 June 2014. John Hughes will be an executive director from 1 June 2014 to 30 June 2014, the date of his retirement.

In addition, the board appointed Stephen Kulmar as a new non-executive director of the Company on 15 April 2014.

On 17 April 2014, John Hughes entered into a consulting agreement with the consolidated entity. The agreement commences on 1 August 2014 for a period of 12 months. A consultancy fee of \$90,000 per annum plus superannuation will be paid.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## 7. Likely Developments

The consolidated entity will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

For further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, refer to section 5.1, the Operating and Financial Review on page 34.

## 8. Directors' Interests

The relevant interest of each director in the shares and performance rights over shares as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	<b>Ordinary shares</b>	<b>Performance Rights over ordinary shares</b>
David Carter	192,729	Nil
James Marshall	126,887	189,873
John Hughes	3,429,113	Nil
Peter Henley	60,278	Nil
Joycelyn Morton	39,000	Nil
Stephen Kulmar	Nil	Nil

The Company has not granted any options over its shares.

## 9. Performance rights

### Performance rights granted to directors and officers of the Company

During the financial year, no performance rights over unissued ordinary shares in the Company were granted. Page 27 to 28 provides the details of those performance rights which have not vested at the date of the report.

### Unissued shares under options

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

## 10. Indemnification and Insurance of Officers and Auditors

### 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 \$43,884 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.

## **11. Non-Audit Services**

During the year KPMG, the Company's auditor, has 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 during the year by the auditor 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 and have been reviewed by the Audit Risk and Compliance Committee 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 APESI 10 Code of Ethics for Professional Accountants, as 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 5.

## **12. Lead Auditor's Independence Declaration**

The Lead Auditor's independence declaration is set out on page 42 and forms part of the directors' report for financial year ended 31 March 2014.

### **13. Rounding Off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



David Carter  
*Chairperson*

Dated at Sydney  
20 May 2014



***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 for the financial year ended 31 March 2014 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

20 May 2014

Thorn Group Limited and its Controlled Entities  
**Statement of Comprehensive Income**  
For The Year Ended 31 March 2014

### 3. Statement of Comprehensive Income

<i>In thousands of AUD</i>	Note	<b>2014</b>	<b>2013</b>
<b>Revenue</b>	3	<b>234,855</b>	<b>203,203</b>
Employee benefit expense	4	(48,859)	(42,837)
Finance lease cost of sales		(38,583)	(26,118)
Depreciation & amortisation expense		(36,213)	(32,259)
Impairment losses on loans and receivables		(17,029)	(10,395)
Marketing expenses		(11,358)	(11,023)
Property expenses		(9,345)	(8,957)
Transport expenses		(6,737)	(6,202)
Communication & IT expenses		(4,684)	(3,844)
Finance expenses		(2,073)	(1,807)
Travel expenses		(1,323)	(1,325)
Other expenses		(17,619)	(17,648)
<b>Profit before income tax</b>		<b>41,032</b>	<b>40,788</b>
Income tax expense	6	(12,881)	(12,767)
<b>Profit for the period</b>		<b>28,151</b>	<b>28,021</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>28,151</b>	<b>28,021</b>
Basic earnings per share (cents)	20	18.94	19.11
Diluted earnings per share(cents)	20	18.91	19.09

*The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 47 to 81.*

#### 4. Statement of Financial Position

<i>In thousands of AUD</i>	<i>Note</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>			
Cash and cash equivalents	7	2,393	4,871
Trade and other receivables	8	68,981	58,463
<b>Total current assets</b>		<b>71,374</b>	<b>63,334</b>
Trade and other receivables	8	89,015	67,139
Deferred tax assets	10	3,260	2,898
Property, plant and equipment	11	4,423	3,655
Rental Assets	12	52,644	52,929
Intangible assets	13	31,734	31,401
<b>Total non-current assets</b>		<b>181,076</b>	<b>158,022</b>
<b>Total Assets</b>		<b>252,450</b>	<b>221,356</b>
<b>Liabilities</b>			
Trade and other payables	14	25,903	26,117
Loans and borrowings	15	9,099	-
Employee benefits	16	5,621	4,719
Income tax payable		7,039	4,520
Provisions	17	498	502
<b>Total current liabilities</b>		<b>48,160</b>	<b>35,858</b>
Loans and borrowings	15	31,397	28,900
Employee benefits	16	248	338
Provisions	17	1,025	887
<b>Total non-current liabilities</b>		<b>32,670</b>	<b>30,125</b>
<b>Total Liabilities</b>		<b>80,830</b>	<b>65,983</b>
<b>Net Assets</b>		<b>171,620</b>	<b>155,373</b>
<b>Equity</b>			
Issued capital		99,060	95,483
Reserves		2,851	2,769
Retained earnings		69,709	57,121
<b>Total equity</b>		<b>171,620</b>	<b>155,373</b>

*The statement of financial position is to be read in conjunction with the notes of the financial statements set out on pages 47 to 81.*

## 5. Statement of Changes in Equity

<i>In thousands of AUD</i>	<b>Equity</b>			<b>Total Equity</b>
	<b>Share Capital</b>	<b>Remuneration Reserve</b>	<b>Retained Earnings</b>	
Balance at 1 April 2012	93,898	2,557	43,756	140,211
<b>Total comprehensive income</b>				
Net profit for the period	-	-	28,021	28,021
Other comprehensive income	-	-	-	-
<b>Transactions with owners of the company</b>				
Issue of shares under dividend reinvestment plan	1,585	-	-	1,585
Share based payments transactions	-	212	-	212
Dividends to shareholders	-	-	(14,656)	(14,656)
Balance at 31 March 2013	<b>95,483</b>	<b>2,769</b>	<b>57,121</b>	<b>155,373</b>
Balance at 1 April 2013	95,483	2,769	57,121	155,373
<b>Total comprehensive income</b>				
Net profit for the period	-	-	28,151	28,151
Other comprehensive income	-	-	-	-
<b>Transactions with owners of the company</b>				
Issue of shares under dividend reinvestment plan	3,577	-	-	3,577
Share based payments transactions	-	82	-	82
Dividends to shareholders	-	-	(15,563)	(15,563)
Balance at 31 March 2014	<b>99,060</b>	<b>2,851</b>	<b>69,709</b>	<b>171,620</b>

*The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 47 to 81.*

## 6. Statement of Cash Flows

<i>In thousands of AUD</i>	Note	2014	2013
<b>Cash flows from operating activities</b>			
Cash receipts from customers		255,109	222,660
Cash paid to suppliers and employees		(138,438)	(120,612)
Cash generated from operations		116,671	102,048
Interest paid		(2,073)	(1,807)
Interest received		151	260
Income tax paid		(10,724)	(7,173)
<b>Net cash from operating activities</b>	26	<b>104,025</b>	<b>93,328</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of assets		1,655	1,126
Acquisition of rental assets		(70,178)	(60,463)
Thorn Equipment Finance settlements		(32,325)	(33,161)
Acquisition of property, plant and equipment		(2,538)	(1,874)
Acquisition of software		(2,727)	(1,784)
<b>Net cash used in investing activities</b>		<b>(106,113)</b>	<b>(96,156)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		24,996	18,900
Repayment of borrowings		(13,400)	(4,000)
Dividends paid		(11,986)	(13,071)
<b>Net cash used in financing activities</b>		<b>(390)</b>	<b>1,829</b>
Net decrease in cash and cash equivalents		(2,478)	(999)
Cash and cash equivalents at April 1		4,871	5,870
<b>Cash and cash equivalents at 31 March</b>	7	<b>2,393</b>	<b>4,871</b>

*The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 47 to 81.*

## 7. Notes to the Consolidated Financial Statements

### I. 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 2014 comprises 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, leasing of motor vehicles, the provision of loans, equipment 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 20 May 2014.

#### (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 basis except where assets are carried at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, 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**

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

(ii) **Impairment of goodwill**

Note 13 contains information about the assumptions and their risk factors relating to goodwill impairment. 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.

(iii) **Rent Try \$1 Buy® asset depreciation**

Where assets are installed on Rent Try \$1 Buy® contracts and their standard estimated useful life is greater than the period at which a similar item can be purchased for \$1, an estimate of the number of assets expected to be purchased for \$1 is made and additional depreciation is expensed based on the average cost of assets installed.

(iv) **Impairment of receivables**

Note 19 contains information about the credit risk associated with 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, an estimate of collateral.

(v) **Purchased debt ledgers**

Fair values of PDLs are determined using a discounted cash flow valuation technique. Cash flow forecasts are based on the estimated future cash flows of the portfolio based on experience on similar portfolios, observed collections to date, payment arrangements and other known factors.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**(c) Basis of Consolidation**

**Subsidiaries**

Subsidiaries are entities (including special purpose entities) controlled by the consolidated entity. The consolidated entity controls an entity when it 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.

#### **(d) Revenue**

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:

##### **Lease Rental Revenue**

The consolidated entity derives revenue from finance and operating leases.

Finance leases arise where substantially all of the risks and benefits incidental to ownership of the leased asset pass to the lessee. 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.

Operating leases arise where substantially all of the risks and benefits incidental to ownership of the leased asset remain with the lessor. Payments under operating leases are due and payable on a monthly basis in advance.

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.

##### **Collection Revenue**

Revenue from collection services rendered is recognised upon delivery of the services to the customers.

##### **Purchased Debt Ledgers Revenue**

Revenue from purchased debt ledgers represents income derived from the application of the effective interest method net of any changes in fair value. The effective interest rate is the implicit interest rate based on forecast collections derived at the time of acquisition of an individual PDL. Change in fair value is determined based on the present value of expected future cashflows.

##### **Interest**

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.

**(e) Cost of Sales**

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

**(f) 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 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.

### **(g) Finance expenses**

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

### **(h) Intangible Assets**

#### **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 and contingent liabilities of the acquiree.

#### *Subsequent measurement*

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 in the current and comparative periods are as follows:

- Customer relationships            5 years
- Software                                3 – 10 years

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

**(i) Financial Instruments**

**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.

**(j) Trade and Other Receivables**

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 and other receivables are stated at their amortised cost less impairment losses, with the exception of purchased debt ledgers which are designated at fair value.

**(k) Loans and Borrowings**

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and 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.

## **(l) Rental Assets**

### **Recognition and Measurement**

Rental 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.

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 are recognised net within “Other Income” or “Other Expenses” in profit or loss.

### **Depreciation**

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. Where assets are installed on Rent Try \$1 Buy® contracts and their estimated useful life is greater than the period at which a similar item can be purchased for \$1, an estimate of the number of assets expected to be purchased for \$1 is made and additional depreciation expensed based on the average cost of assets installed.

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.

## **(m) Property, Plant and Equipment**

### **Recognition and Measurement**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised net within “Other Income” or “Other Expenses” in profit or loss.

### **Depreciation**

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write-off the net cost of each asset over its estimated useful life.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives in the current and comparative periods are as follows:

- Freehold Buildings                      20 years
- Leasehold Property                      The lease term, to a maximum of 5 years
- Plant and Equipment                    3 – 10 years

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

## **(n) 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 is 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 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.

### **(o) Employee Benefits**

#### **(i) Defined Contribution Superannuation Funds**

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the profit or loss in the periods during which services are rendered by employees.

#### **(ii) Long Service Leave**

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the consolidated entity's obligations.

#### **(iii) Wages, Salaries, Annual Leave and Non-Monetary Benefits**

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at the reporting date including on-costs, such as workers compensation insurance and payroll tax.

#### **(iv) Share-based Payment Transactions**

The Performance Rights Plan allows certain consolidated entity employees to receive shares of the Company. The fair value of performance rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights.

The fair value of the performance rights granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the performance rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where the rights have not vested due to share prices not achieving the threshold for vesting.



**(v) Termination Benefits**

Termination benefits are recognised as an expense when the consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the retirement date.

**(p) Provisions**

A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation that can be measured reliably as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

**Make good costs for leased property**

A provision for make good costs for leased property is recognised when a make good obligation exists in the lease contracts.

The provision is the best estimate of the present value of the expenditure required to settle the make good obligation at the reporting date. Future make good costs are reviewed annually and any changes are reflected in the present value of the make good provision at the end of the reporting period. The unwinding of the discounting is recognised as a finance cost.

**(q) Trade and Other Payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing.

**(r) Lease Payments**

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.

**(s) 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.

**(t) Earnings Per Share**

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

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.

**(u) Share Capital**

*Ordinary shares*

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.

*Dividends*

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

*Dividend Reinvestment Plan*

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.

**(v) Segment Reporting**

The consolidated entity determines and presents operating segments based on the information that internally is provided to the CEO, who is the consolidated entity's chief operating decision maker.

**(w) Changes in Accounting Policy**

All new Accounting Standards and Interpretations applicable to annual reporting periods commencing on or before 1 April 2014 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.

There has been no other change in accounting policy during the year.

**(x) 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. The consolidated entity will apply the standards and amendments for the reporting periods beginning on the operative dates set out below. An initial assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the consolidated entity's financial statements or accounting policies. The consolidated entity does not plan to adopt these standards early.

- AASB 2010-7 and AASB 2009-11 Amendments to AASB 9 introduce new requirements for the classification and measurement of financial assets. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. AASB 9 introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting. The amendments, which become mandatory for the consolidated entity's 31 March 2016 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements remove the individual KMP disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply for the consolidated entity's 31 March 2015 financial statements and cannot be adopted early. The Corporations Act 2001 requirements in relation to the remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (effective financial years beginning on or after 1 January 2014) made amendments to AASB 139 Financial Instruments: Recognition and Measurement, which permits the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument and is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Since the Group transacts derivatives directly with banks, the amendments are not expected to have a significant impact on the Group's financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2015.
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The adoption of the amendments may increase the disclosures by the consolidated entity

## 2. Segment Reporting

The Board and CEO (the chief operating decision maker) monitor the operating results of four reportable segments, which are the Consumer Leasing division, the Credit Management division, the Thorn Equipment Finance division and the Thorn Financial Services division for the purpose of making decisions about resource allocation and performance assessment.

The Consumer Leasing division conducts the business of leasing of household products and leasing of motor vehicles.

The Credit Management division is comprised of the NCML business. NCML provides receivables management, debt recovery, credit information services, debt purchasing and other financial services.

Thorn Equipment Finance division conducts the business in equipment financing for small and medium enterprises.

The Thorn Financial Services division conducts the business of the provision of personal loans.

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

For the twelve months ended 31 March 2014

<b>2014</b>	<b>Consumer Leasing</b>	<b>Credit Management</b>	<b>Thorn Equipment Finance</b>	<b>Thorn Financial Services</b>	<b>Consolidated</b>
<i>In thousands of AUD</i>					
External revenues	196,800	20,241	8,317	9,346	234,704
Inter-segment revenue	-	370	-	-	370
<b>Segment revenue</b>	<b>196,800</b>	<b>20,611</b>	<b>8,317</b>	<b>9,346</b>	<b>235,074</b>
Operating expenses	(147,350)	(16,560)	(5,353)	(8,161)	(177,424)
<b>Profit Before interest, tax, depreciation and amortisation</b>	<b>49,450</b>	<b>4,051</b>	<b>2,964</b>	<b>1,185</b>	<b>57,650</b>
Depreciation	(1,363)	(247)	(50)	(71)	(1,731)
<b>Profit Before interest, tax and amortisation</b>	<b>48,087</b>	<b>3,804</b>	<b>2,914</b>	<b>1,114</b>	<b>55,919</b>
Capital Expenditure	75,105	308	32,325	30	107,768
Segment Assets	151,041	26,427	49,977	25,005	252,450
Segment Liabilities	(78,692)	(2,138)	-	-	(80,830)

Thorn Group Limited and its Controlled Entities  
**Notes to the Consolidated Financial Statements**  
For The Year Ended 31 March 2014

**2. Segment Reporting (continued)**

2013	Consumer Leasing	Credit Management	Thorn Equipment Finance	Thorn Financial Services	Consolidated
<i>In thousands of AUD</i>					
External revenues	170,020	18,874	6,129	7,920	202,943
<b>Segment revenue</b>	<b>170,020</b>	<b>18,874</b>	<b>6,129</b>	<b>7,920</b>	<b>202,943</b>
Operating expenses	(122,022)	(15,204)	(5,078)	(6,283)	(148,587)
<b>Profit Before interest, tax, depreciation and amortisation</b>	<b>47,998</b>	<b>3,670</b>	<b>1,051</b>	<b>1,637</b>	<b>54,356</b>
Depreciation	(1,212)	(262)	(48)	(13)	(1,535)
<b>Profit Before interest, tax and amortisation</b>	<b>46,786</b>	<b>3,408</b>	<b>1,003</b>	<b>1,624</b>	<b>52,821</b>
Capital Expenditure	63,822	299	33,161	-	97,282
Segment Assets	142,676	24,519	34,996	19,165	221,356
Segment Liabilities	(63,789)	(2,194)	-	-	(65,983)

**Reconciliation of reportable segment profit or loss**

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Profit before interest, tax and amortisation for reportable segments	55,919	52,821
Unallocated amounts:		
Other corporate expenses	(10,532)	(8,302)
Depreciation & Amortisation	(2,433)	(2,184)
Net financing costs	(1,922)	(1,547)
<b>Profit before tax</b>	<b>41,032</b>	<b>40,788</b>
Income tax expense	(12,881)	(12,767)
<b>Profit after tax</b>	<b>28,151</b>	<b>28,021</b>

**Reconciliation of reportable revenue**

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Revenue for reportable segments	235,074	202,943
Other revenue	151	260
Elimination of inter-segment revenue	(370)	-
<b>Revenue</b>	<b>234,855</b>	<b>203,203</b>

Thorn Group Limited and its Controlled Entities  
**Notes to the Consolidated Financial Statements**  
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**3. Revenue**

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Operating leases	108,041	102,191
Finance lease sales	51,507	37,876
Interest	54,343	44,023
Collection revenue	17,474	15,801
PDL revenue	3,136	3,073
Other income	354	239
	<b>234,855</b>	<b>203,203</b>

Adjustments to the carrying amount of purchased debt ledgers as a result of changes in estimated cash flows were immaterial during the year. These have been included in PDL revenue above.

**4. Employment Expense**

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Wages and salaries	44,387	39,163
Contributions to defined contribution superannuation funds	3,173	2,930
Increase in liability for annual leave	323	69
Increase in liability for long service leave	256	54
Termination benefits	638	409
Equity settled share-based payment transactions	82	212
	<b>48,859</b>	<b>42,837</b>

**5. Auditors' Remuneration**

<i>In whole AUD</i>	<b>2014</b>	<b>2013</b>
<b>Audit services</b>		
<i>KPMG Australia:</i>		
Audit and review of financial reports	345,000	327,000
	<b>345,000</b>	<b>327,000</b>
<b>Other services</b>		
<i>KPMG Australia:</i>		
Taxation services – compliance	60,000	115,000
Taxation services – advice	30,000	175,000
Other services	45,000	5,000
	<b>135,000</b>	<b>295,000</b>

## 6. Income Tax Expense

### Recognised in the Income Statement

	2014	2013
<i>In thousands of AUD</i>		
<b>Current tax expense</b>		
Current year	13,227	10,245
Adjustment for prior years	16	(105)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(362)	2,627
<b>Total income tax expense in income statement</b>	<b>12,881</b>	<b>12,767</b>

### Numerical reconciliation between tax expense and pre-tax accounting profit

	2014	2013
<i>In thousands of AUD</i>		
Profit before tax	41,032	40,788
Prima facie income tax using the domestic corporation tax rate of 30% (2013: 30%)	12,310	12,236
Change in income tax expense due to:		
Non-deductible expenses	555	636
(Over) / Under provided in prior years	16	(105)
Income tax expense on pre-tax accounting profit	12,881	12,767

## 7. Cash and Cash Equivalents

	2014	2013
<i>In thousands of AUD</i>		
Bank balances	2,283	4,761
Call deposits	110	110
Cash and cash equivalents	2,393	4,871

Included in cash are amounts of \$1,340,000 (2013: Nil) which are held as part of the consolidated entity's funding arrangements that are not available to the consolidated entity.

**8. Trade and Other Receivables**

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Trade receivables	4,062	4,504
Finance lease receivables	37,316	28,815
Loan receivables	15,583	12,744
Purchased debt ledgers	3,581	3,697
Lease deposits	564	584
Other receivables and prepayments	7,875	8,119
	<b>68,981</b>	<b>58,463</b>
<b>Non-current</b>		
Finance lease receivables	74,033	56,119
Loan receivables	9,689	6,422
Purchased debt ledgers	5,293	4,598
	<b>89,015</b>	<b>67,139</b>

Trade receivables are shown net of provision for impairment losses amounting to \$972,000 (2013: \$894,000).

Provision for impairment losses relating to finance lease receivables amounting to \$10,526,000 (2013: \$8,053,000) reflects the risk to the consolidated entity of the expected early return or loss of products throughout the life of the contract.

Loan receivables are shown net of provision for impairment losses amounting to \$3,159,000 (2013: \$2,588,000).

The consolidated entity's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 19.



## 9. Purchased Debt Ledgers

Purchased Debt Ledgers (PDL) are measured at fair value and are classified as level 3 under the hierarchy set out in AASB 7 Financial Instruments: Disclosure. The following table shows a reconciliation of the PDL balances:

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
At the beginning of the year	8,295	6,703
Net additions	5,879	5,609
Collections	(8,436)	(7,090)
Revenue	3,136	3,073
<b>Total</b>	<b>8,874</b>	<b>8,295</b>

PDLs are classified as follows:

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Current	3,581	3,697
Non-current	5,293	4,598
<b>Total</b>	<b>8,874</b>	<b>8,295</b>

The following summarises the assumptions used in these calculations:

<b>Input</b>	<b>Assumption and/or basis for assumption</b>
Term which collections will be yielded	Maximum 72 months from start date of PDL acquisition
Effective interest rate	Based on the effective interest rate for each PDL recognised at the time of acquisition
Forecast collections	Forecasts are based on each PDL collections to date, the performance of equivalent PDL and allowances for other known factors

A change of five percent in forecast collections at the reporting date would have increased or decreased the consolidated entity's equity and profit or loss by \$271,000 (2013: \$210,000).

## 10. Deferred Tax Assets and Liabilities

### Recognised Deferred Tax Assets and Liabilities

Deferred Tax Assets and Liabilities are attributable to the following:

<i>In thousands of AUD</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Rental assets	26,824	21,094	-	-	26,824	21,094
Property, plant and equipment	338	94	-	-	338	94
Trade, loan and other receivables	1,240	1,019	-	-	1,240	1,019
Finance lease receivables	-	-	(28,648)	(22,086)	(28,648)	(22,086)
Accruals	1,965	1,746	-	-	1,965	1,746
Provisions	1,241	1,130	-	-	1,241	1,130
PDL liability	300	-	-	(99)	300	(99)
<b>Tax assets / (liabilities)</b>	<b>31,908</b>	<b>25,083</b>	<b>(28,648)</b>	<b>(22,185)</b>	<b>3,260</b>	<b>2,898</b>

## 11. Property, Plant and Equipment

<i>In thousands of AUD</i>	Land and Buildings	Leasehold Improvements	Plant and Equipment <sup>1</sup>	<b>Total</b>
<b>Year ended 31 March 2013</b>				
Opening net book amount	20	2,154	1,266	<b>3,440</b>
Additions	-	1,203	671	<b>1,874</b>
Depreciation charge for the year	(2)	(883)	(774)	<b>(1,659)</b>
Closing net book amount	18	2,474	1,163	<b>3,655</b>
<b>At 31 March 2013</b>				
Cost	70	9,002	6,770	<b>15,842</b>
Accumulated depreciation	(52)	(6,528)	(5,607)	<b>(12,187)</b>
Net book amount	18	2,474	1,163	<b>3,655</b>
<b>Year ended 31 March 2014</b>				
Opening net book amount	18	2,474	1,163	<b>3,655</b>
Additions	-	1,245	1,293	<b>2,538</b>
Depreciation charge for the year	(2)	(966)	(802)	<b>(1,770)</b>
Closing net book amount	16	2,753	1,654	<b>4,423</b>
<b>At 31 March 2014</b>				
Cost	70	10,247	7,833	<b>18,150</b>
Accumulated depreciation	(54)	(7,494)	(6,179)	<b>(13,727)</b>
Net book amount	16	2,753	1,654	<b>4,423</b>

<sup>1</sup> Intangibles to the carrying amount of \$3,508,000 were reclassified from property plant and equipment to Intangible assets in 2013 comparatives.

## 12. Rental Assets

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Opening balance	52,929	48,478
Acquisitions	70,178	60,463
Disposals	(3,184)	(2,908)
Depreciation	(32,049)	(28,540)
Transfers to finance leases	(36,759)	(26,328)
Transfers from finance leases	1,529	1,764
<b>Balance at 31 March</b>	<b>52,644</b>	<b>52,929</b>

## 13. Intangible Assets

<i>In thousands of AUD</i>	Goodwill	Customer Relationships	Software <sup>1</sup>	<b>Total</b>
<b>Year ended 31 March 2013</b>				
Opening net carrying amount	22,276	7,037	2,364	31,677
Additions	-	-	1,784	1,784
Amortisation charge for the year	-	(1,760)	(300)	(2,060)
Closing net book amount	22,276	5,277	3,848	<b>31,401</b>
<b>At 31 March 2013</b>				
Cost	29,350	8,797	6,575	44,722
Amortisation and Impairment Losses	(7,074)	(3,520)	(2,727)	(13,321)
Net book amount	22,276	5,277	3,848	<b>31,401</b>
<b>Year ended 31 March 2014</b>				
Opening net book amount	22,276	5,277	3,848	<b>31,401</b>
Additions	-	-	2,727	<b>2,727</b>
Amortisation charge for the year	-	(1,760)	(634)	<b>(2,394)</b>
Closing net book amount	22,276	3,517	5,941	<b>31,734</b>
<b>At 31 March 2014</b>				
Cost	29,350	8,797	9,302	<b>47,449</b>
Amortisation and Impairment Losses	(7,074)	(5,280)	(3,361)	<b>(15,715)</b>
Net book amount	22,276	3,517	5,941	<b>31,734</b>

<sup>1</sup> Intangibles to the carrying amount of \$3,508,000 have been reclassified from property plant and equipment to intangible assets in 2013.

**Intangible Assets (continued)**

**Impairment tests for Cash Generating Units (CGU) containing goodwill**

The following units have significant carrying amounts of goodwill:

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Consumer Leasing	15,604	15,604
Credit Management	6,672	6,672
	<b>22,276</b>	<b>22,276</b>

The recoverable amount of the above CGU's are determined based on a value-in-use calculation. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period and terminal value. The cash flow projections have been approved by the Board.

**Key assumptions used for value-in-use calculations**

Consumer Leasing

During the forecast period, revenue is assumed to grow at an average of 3% p.a. and the pre-tax discount rate is assumed at 10.54% (2013: 9.42%). A terminal value is calculated using the cash flows for year 5 of the forecast period and a long-term growth rate of 2%. The value in use calculation in 2014 was determined on a similar basis to the 2013 calculation.

Credit Management

During the forecast period, revenue is assumed to grow at an average of 8% p.a. and the pre-tax discount rate is assumed at 11.66% (2013: 9.42%). A terminal value is calculated using the cash flows for year 5 of the forecast period and a long-term growth rate of 2%. The value in use calculation in 2014 was determined on a similar basis to the 2013 calculation.

The Credit Management discount rate increased to 11.66% due to:

- an increase in the risk free rate in-line with the 10 year government bond rate;
- an increase in the beta; and
- the inclusion of a size premium.

The recoverable amount of the CGU's exceeds their carrying value at 31 March 2014.

Management believes that any reasonable change in the key assumptions on which the estimates and/or the discount rate are based would not cause the carrying amount of the CGU to exceed its recoverable amount.

#### 14. Trade and Other Payables

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Trade payables	16,031	16,517
Other creditors and accruals	7,359	6,810
Deferred rental revenue	2,152	2,359
Property lease accrual	361	431
	<b>25,903</b>	<b>26,117</b>

#### 15. Loans and Borrowings

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current liabilities</b>		
Secured loans	9,099	-
<b>Non-current liabilities</b>		
Secured loans	31,397	28,900
	<b>40,496</b>	<b>28,900</b>

#### Financing Loan Facilities

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Secured loan facilities available	100,000	50,000
	<b>100,000</b>	<b>50,000</b>
Secured loan facilities utilised at balance date	40,496	28,900
	<b>40,496</b>	<b>28,900</b>
Secured loan facilities not utilised at reporting date	59,504	21,100
	<b>59,504</b>	<b>21,100</b>

#### Financing arrangements

##### Loan facilities

Thorn Australia Pty Limited has loan facility of \$50,000,000 secured by a fixed and floating charge over the assets of the consolidated entity.

The consolidated entity entered into a warehouse loan facility of \$50,000,000 secured by rentals and payments receivable in respect of the underlying lease receivable contracts during the financial year. The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current.

For more information about the consolidated entity's exposure to interest rate risk and liquidity risk see note 19.

## 16. Employee Benefits

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Salaries and wages accrued	1,312	1,079
Liability for long service leave	1,783	1,437
Liability for annual leave	2,526	2,203
	<b>5,621</b>	<b>4,719</b>
<b>Non-Current</b>		
Liability for long service leave	248	338
	<b>248</b>	<b>338</b>

### Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as expense was \$3,173,000 for the financial year ended 31 March 2014 (2013: \$2,930,000).

## 17. Provisions

<i>In thousands of AUD</i>	<b>Make Good</b>	<b>Total</b>
Balance at 1 April 2013	1,389	1,389
Provisions made during the year	345	345
Provisions used during the year	(237)	(237)
Unwind of discount	26	26
Balance at 31 March 2014	1,523	1,523
	<b>2014</b>	<b>2013</b>
Current	498	502
Non-current	1,025	887
	<b>1,523</b>	<b>1,389</b>

### Make Good

A provision for make good costs in respect of leased property is recognised when a make good obligation exists in the lease contracts. The provision is initially recognised at the inception of the lease.

## 18. Capital and Reserves

	2014	2013
On issue at the beginning of year	147,584,880	146,374,703
Issue of new shares on vesting of performance rights	127,919	409,339
Issue of shares under dividend investment plan	1,782,014	800,838
On issue at the end of year	149,494,813	147,584,880

- 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.

### Reserves

#### Equity Remuneration Reserve

The equity remuneration reserve represents the value of performance rights issued under the Company's long-term incentive plan.

### Dividends

Dividends recognised in the current year by the Company are:

	<i>Cents per share</i>	<i>Total amount \$'000s</i>	<i>Franked / unfranked</i>	<i>Date of payment</i>
<b>2014</b>				
Final 2013	6.0	8,863	Franked	18-Jul-13
Interim 2014	4.5	6,700	Franked	17-Jan-14
Total amount		15,563		
<b>2013</b>				
Final 2012	5.5	8,051	Franked	18-Jul-12
Interim 2013	4.5	6,605	Franked	17-Jan-13
Total amount		14,656		

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

#### Dividend Reinvestment Plan (DRP)

The Company operated a DRP during the period. In accordance with the Company's DRP, 1,782,014 new ordinary shares totalling \$3,577,000 were issued.

Details of the DRP are disclosed in Note 1(u).

## 18. Capital and Reserves (continued)

After the balance sheet date, the following dividend was proposed by the directors.

	Cents per share	Total amount	Franked/unfranked	Expected date of payment
Final ordinary	6.5	9,717,163	Franked	17 July 2014

The financial effect of this dividend has not yet been brought to account in the financial statements for the year ended 31 March 2014 and will be recognised in subsequent financial reports. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce franking credits by \$4,164,498 (2013: \$3,795,040).

*In thousands of AUD*

	2014	2013
Dividend franking account		
30% franking credits available to shareholders of Thorn Group Limited for subsequent financial years	30,813	24,241

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.

## 19. Financial Risk Management

### (a) 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 and 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 and 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.



## **19. Financial Risk Management (continued)**

### **Credit risk**

Credit risk is the risk of financial loss to the consolidated entity if a customer fails to meet its contractual obligation, and arises principally from the consolidated entity's trade, loan and finance lease receivables from customers and purchased debt ledgers.

To manage credit risk, the consolidated entity has formulated comprehensive credit policies covering credit assessments and compliance with regulatory and statutory requirements. Credit underwriting includes the use of a scorecard system or credit bureau report or a detailed internal risk profile for each application. The scorecard system is revised periodically and adjusted for a number of factors including geographic location and market changes.

Credit risk for purchased debt ledgers is managed through a stringent process involving analysis of the target entity and its customer history and with reference to the industry.

### **Liquidity risk**

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity's access to financing arrangements is disclosed in Note 15.

### **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.

### **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 capital, which the consolidated entity defines as profit before financing costs divided by total assets. The Board of Directors also monitors the level of dividends to ordinary shareholders. Refer to Note 18 for quantitative data.

## 19. Financial Risk Management (continued)

### (b) Credit Risk

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:

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Trade receivables	4,062	4,504
Consumer Finance lease receivables	61,372	49,817
Commercial Finance lease receivables	49,977	35,117
Loan receivables	25,272	19,166
Purchased debt ledgers	8,874	8,295
	<b>149,557</b>	<b>116,899</b>

### Impairment losses

#### Trade receivables

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

<i>In thousands of AUD</i>	<b>Gross 2014</b>	<b>Impairment 2014</b>	<b>Gross 2013</b>	<b>Impairment 2013</b>
Not past due	1,488	-	1,056	-
Past due 0 - 30 Days	1,925	133	2,329	151
Past due 31 - 180 Days	1,621	839	2,013	743
	<b>5,034</b>	<b>972</b>	<b>5,398</b>	<b>894</b>

The net value of trade receivables as at 31 March 2014 was \$4,062,000 (2013: \$4,504,000)

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

Finance lease receivables that are past due are disclosed in the trade receivables above.

The provision for impairment losses as at 31 March 2014 is \$8,961,000 (2013: \$6,590,000). 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 value of this collateral as at 31 March 2014 is \$39,696,000 (2013: \$29,377,000).

## 19. Financial Risk Management (continued)

### Commercial finance lease receivables

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

<i>In thousands of AUD</i>	<b>Gross 2014</b>	<b>Impairment 2014</b>	<b>Gross 2013</b>	<b>Impairment 2013</b>
Not past due	49,832	-	35,134	-
Past due 0 - 30 Days	1,113	968	1,041	1,058
Past due 31 - 180 Days	597	597	405	405
	<b>51,542</b>	<b>1,565</b>	<b>36,580</b>	<b>1,463</b>

The net value of commercial finance lease receivables as at 31 March 2014 was \$49,977,000 (2013: \$35,117,000)

### Loan receivables

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

<i>In thousands of AUD</i>	<b>Gross 2014</b>	<b>Impairment 2014</b>	<b>Gross 2013</b>	<b>Impairment 2013</b>
Not past due	24,924	1,066	19,459	1,309
Past due 0 - 30 Days	1,571	157	1,129	113
Past due 31 - 180 Days	1,936	1,936	1,166	1,166
	<b>28,431</b>	<b>3,159</b>	<b>21,754</b>	<b>2,588</b>

The net value of loan receivables as at 31 March 2014 was \$25,272,000 (2013: \$19,166,000)

### (c) Liquidity Risk

The following are the contractual maturities of the consolidated entity's financial liabilities including, where applicable, future interest payments as at 31 March 2014.

#### 31 March 2014

<i>In thousands of AUD</i>	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>1 year or less</b>	<b>2-5 years</b>	<b>5 years or more</b>
Secured loan facilities	40,496	46,966	11,468	35,498	-
Trade and other payables	23,390	23,390	23,390	-	-
	<b>63,886</b>	<b>70,356</b>	<b>34,858</b>	<b>35,498</b>	<b>-</b>

#### 31 March 2013

<i>In thousands of AUD</i>	<b>Amount</b>	<b>Cash Flows</b>	<b>1 year or less</b>	<b>2-5 years</b>	<b>more</b>
Secured loan facilities	28,900	33,001	1,745	31,256	-
Trade and other payables	23,327	23,327	23,327	-	-
	<b>52,227</b>	<b>56,328</b>	<b>25,072</b>	<b>31,256</b>	<b>-</b>

## 19. Financial Risk Management (continued)

### (d) Interest Rate Risk

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

<b>Variable Rate Instruments</b>	<b>Carrying Amount</b>	
	<b>2014</b>	<b>2013</b>
<i>In thousands of AUD</i>		
Financial assets	1,136	4,761
Financial liabilities	(40,496)	(28,900)

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 \$276,000 (2013: \$169,000).

### (e) 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.

### (f) 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. Other financial instruments including purchase debt ledgers are classified as Level 3.

## 20. Earnings Per Share

### Basic earnings per share

The calculation of basic earnings per share at 31 March 2014 was based on profit attributable to ordinary shareholders of \$28,151,000 (2013: \$28,021,000) and a weighted average number of ordinary shares during the year ended 31 March 2014 of 148,640,899 (2013: 146,644,775).

### Diluted earnings per share

The calculation of diluted earnings per share at 31 March 2014 was based on profit attributable to ordinary shareholders of \$28,151,000 (2013: \$28,021,000) and a weighted average number of ordinary shares during the year ended 31 March 2014 of 148,842,000 (2013: 146,488,310), which includes performance rights granted.

**20. Earnings Per Share (continued)**

	2014	2013
<b>Profit attributable to ordinary shareholders (basic)</b>		
<i>In thousands of AUD</i>		
Profit attributable to ordinary shareholders (basic and diluted)	28,151	28,021
<b>Weighted average number of ordinary shares (basic)</b>		
<i>In thousands of shares</i>		
Issued ordinary shares at 1 April	147,584	146,375
Effect of shares issued	1,057	270
Weighted average number of ordinary shares at 31 March	148,641	146,645
<b>Weighted average number of ordinary shares (diluted)</b>		
<i>In thousands of shares</i>		
Issued ordinary shares at 1 April	148,580	146,488
Effect of shares issued	262	324
Weighted average number of ordinary shares (diluted) at 31 March	148,842	146,812
<b>Earnings per share</b>		
Basic earnings per share (cents)	18.94	19.11
Diluted earnings per share (cents)	18.91	19.09

**21. Operating Leases**

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	2014	2013
Less than one year	8,068	8,141
Between one and five years	10,686	13,207
	18,754	21,348

The consolidated entity leases all store and office premises under operating leases. The leases typically run for a period of 3 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 property leases do not include contingent 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.

**Leases as lessor**

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

## 21. Operating Lease (continued)

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Less than one year	29,499	37,671
Between one and five years	5,773	8,549
	<b>35,272</b>	<b>46,220</b>

## 22. Finance Leases

### Leases as lessor

The consolidated entity leases out its rental assets under finance lease, hire purchase and chattel mortgage contracts. The consolidated entity classifies Rent Try \$1 Buy® 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 payments under non-cancellable finance leases are as follows:

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Less than one year	87,489	67,597
Between one and five years	101,551	74,631
	<b>189,040</b>	<b>142,228</b>

Unearned finance income in relation to finance leases as at 31 March 2014 was \$67,162,000 (2013: \$49,225,000).

## 23. Consolidated Entities

	<b>Country of Incorporation</b>	<b>Ownership interest</b>	
		<b>2014</b>	<b>2013</b>
<b>Parent entity</b>			
Thorn Group Limited	Australia		
<b>Subsidiaries</b>			
Thorn Australia Pty Ltd	Australia	100%	100%
Eclipse Retail Rental Pty Ltd	Australia	100%	100%
Rent Try Buy Pty Ltd	Australia	100%	100%
CashFirst Pty Ltd	Australia	100%	100%
1 <sup>st</sup> Cash Pty Ltd	Australia	100%	100%
Thorn Equipment Finance Pty Ltd	Australia	100%	100%
Thorn Finance Pty Ltd	Australia	100%	100%
Votraint No 1537 Pty Ltd	Australia	100%	100%
National Credit Management Limited	Australia	100%	100%
A.C.N 119211317 Pty Ltd	Australia	100%	100%
Hudson Legal Pty Ltd	Australia	100%	100%
Thorn ABS Warehouse Series No. 1	Australia	100%	n/a

## **24. Contingencies**

The industry in which the consolidated entity operates is highly regulated. Documentation, marketing and sales activities (both written and verbal) must comply with strict rules provided in the National Consumer Credit Protection Act and other legislation such as the Fair Trading and door to door sales legislation. Breach of these rules can result in fines or civil penalties or damages or compensation or some combination of these.

The consolidated entity has no reason to believe that a breach of these rules will occur or is likely to result in a material effect on the profitability of the consolidated entity. No provision exists for any potential exposure in connection with such a breach.

The consolidated entity is aware (via the “mystery shop” process, where a person presents as a customer but is not a real customer) that some verbal statements may have been made to some customers inaccurately describing the customer’s rights in relation to the acquisition of similar products to those rented under its Rent Try \$1 Buy® contracts. Under the National Consumer Credit Protection Act, the amount at risk in relation to any affected contract is part of any deemed “interest” payable under that contract and/or any penalties which could be imposed. No customer complaints have been received in this regard.

The consolidated entity has no reason to believe that this matter is likely to result in a material effect on the profitability of the consolidated entity and no provision exists for any potential exposure in connection with this matter.

## **25. Deed of Cross Guarantee**

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998 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 Class Order 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 23 (excluding Thorn ABS Warehouse Series 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 2014, 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 Series No. 1. Excluding the Thorn ABS Warehouse Series No. 1, cash and cash equivalents would decrease by \$1,340,000 and trade and other payables would decrease by \$1,340,000.

## 26. Reconciliation of Cash Flows from Operating Activities

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Profit for the period	28,151	28,021
<i>Adjustments for :</i>		
Depreciation and amortisation	36,213	32,259
Equity settled transactions	82	212
Transfer of rental assets to finance leases	36,759	26,328
Thorn Equipment Finance settlements	32,325	33,161
<b>Operating profit before changes in working capital and provisions</b>	<b>133,530</b>	<b>119,981</b>
<b>Changes in working capital and provisions, net of the effects of the Purchase of subsidiaries</b>		
(Increase) in trade and other receivables	(32,394)	(35,303)
Decrease in deferred tax assets	(362)	2,627
Increase / (Decrease) in income tax liability	2,519	3,260
Increase / (Decrease) in trade and other payables	(214)	2,719
Increase in provisions and employee benefits	946	44
<b>Net cash from operating activities</b>	<b>104,025</b>	<b>93,328</b>

## 27. Parent Entity Disclosures

As at, and throughout, the financial year ending 31 March 2014 the parent entity of the consolidated entity was Thorn Group Limited.

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Result of Parent Entity</b>		
Profit for the period	15,563	14,656
<i>Other comprehensive income</i>	-	-
Total comprehensive income for the period	15,563	14,656
<b>Financial position of the parent entity at year end</b>		
Current assets	7,039	4,520
Total assets	108,950	102,772
Current liabilities	7,039	4,520
Total liabilities	7,039	4,520
<b>Total equity of the parent comprising of:</b>		
Share capital	99,060	95,483
Equity remuneration reserve	2,851	2,769
<b>Total Equity</b>	<b>101,911</b>	<b>98,252</b>



## 27. Parent Entity Disclosure (continued)

### Parent entity guarantees in respect of the debts of its subsidiaries

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 25. The deed guarantees the debts of the subsidiaries.

## 28. Related Parties

### Key management personnel remuneration

In AUD	<b>2014</b>	<b>2013</b>
Short-term employee benefits	1,949,009	1,908,221
Post-employment benefits	87,342	83,676
Long-term employee benefits	380,259	17,271
Share based payments	127,400	176,411
	<b>2,544,010</b>	<b>2,185,579</b>

### 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 on pages 11 to 28.

No 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.

**28. Related Parties (continued)**

**Movements in shares**

The movement during the reporting period in the number of 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 2013	Purchases	Sales	Received upon exercise of performance rights	Held at 31 March 2014
<b>Directors</b>					
David Carter	241,300	11,429	60,000	-	192,729
John Hughes	3,347,463	-	-	81,650	3,429,113
Peter Henley	60,278	-	-	-	60,278
Joycelyn Morton	34,000	5,000	-	-	39,000

<b>Executives</b>					
James Marshall	107,835	-	-	19,052	126,887
Peter Eaton	340,218	-	-	27,217	367,435

	Held at 1 April 2012	Purchases	Sales	Received upon exercise of performance rights	Held at 31 March 2013
<b>Directors</b>					
David Carter	262,600	3,700	25,000	-	241,300
John Hughes	3,586,183	-	500,000	261,280	3,347,463
Peter Henley	60,278	12,500	12,500	-	60,278
Paul Lahiff	35,157	-	-	-	35,157
Joycelyn Morton	20,000	14,000	-	-	34,000

<b>Executives</b>					
James Marshall	116,870	-	70,000	60,965	107,835
Peter Eaton	403,124	-	150,000	87,094	340,218

## 8. Director's Declaration

- I In the opinion of the directors of Thorn Group Limited (the 'Company'):
  - (a) the financial statements and notes that are set out on pages 43 to 81 and the remuneration disclosures that are contained in section 4.3 of 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 2014 and of their 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 23 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 Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 31 March 2014.

Signed in accordance with a resolution of the directors:



David Carter  
Chairperson



John Hughes  
Managing Director

Dated at Sydney  
20 May 2014



## Independent auditor's report to the members of Thorn Group Limited

### Report on the financial report

We have audited the accompanying financial report of Thorn Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 March 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 March 2014 and of its performance for the 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.

**Report on the remuneration report**

We have audited the Remuneration Report included in section 4.3 of the directors' report for the year ended 31 March 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Thorn Group Limited for the year ended 31 March 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Anthony Travers  
*Partner*

Sydney

20 May 2014