

Thorn Group Limited

ACN 072 507 147

Managing Director's AGM Address

23 AUGUST 2012

I might begin by taking up David's theme of our journey over the past six years and the importance of innovation. Since that time, our core business, Radio Rentals, which has a 75 year history, has really been transformed to ensure it continually remains relevant in its market, and this has been an important factor underlying our growth.

Innovation and Radio Rentals

Over the years, we've changed the way stores look and relate to customers. Today our stores have much larger showroom areas which enable a far better display of products and this has been a key factor in developing our presence in furniture. This is almost the reverse of six years ago, with the majority of product stored out the back and customers walking into more of an office environment. Having an increased showroom presence has been accompanied with changing how we supply some of the stores, with regionally located warehousing significantly improving the economics and logistics. During this time we've also opened one person branches, kiosks in shopping malls, expanded our range of goods and introduced Thorn branded product. In addition our websites now generate almost a million visits a year.

The launch of Thorn products has proven very successful, with our Thorn TV a reminder of a historic brand first created 80 years ago and which was well known when colour TV was first introduced to Australia. We have now extended this branding to refrigerators and intend to take it further to washing machines and other appliances. Our addition of furniture to the range a number of years ago has proven to be very rewarding since it is now the most popular item in the range, having taken over flat screen TVs, and we are looking toward further expansion in this area.

Connecting with customers

So you can see from this pattern of development that while there is constancy around the strength of the Radio Rentals brand; what it represents and how it connects with customers is a changing concept and will continue to be. We are always looking at new ranges of product that might connect with our target market and the changing demographics. With our focus on customers being paramount, it is worth mentioning our introduction of a hardship contract during the year which we felt was essential in today's economic climate and is designed to cover circumstances where a customer might lose a job or succumb to bad health. In special circumstances, we have allowed certain customers to halve their payments and extend the term of their contract. This is not only a big relief for them, as they have told us, but it contributes to retaining customers and also helps our staff who become deeply involved in these situations. This contract lies within our Responsible Lending Policy in which we have strict guidelines for providing customers with the right product for their needs and within their financial means.

Core discipline

Our focus on innovation also extends to all other parts of our business, reflecting the increasing financial services component of our strategy as David has commented. I should also mention in this context that our inclination to try new things is also integrated with our core discipline of credit quality and management and a conservative business focus on achieving attractive returns on capital, which strengthened to just under 22 per cent in 2012.

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Cashfirst

Our personal loans business, Cashfirst, began three years ago as an internal start up business, offering personal loans up to \$2,000. It has now increased this amount to \$5,000, built a base of close to 10,000 customers and has a loan book of some \$19 million. We also see this growth as a launching pad to take us into a broader range of financial services products, with a new senior executive being recruited to lead this development. It could take us into larger secured loans, possibly see the creation of a new brand and take us into a higher level customer segment where we see an opportunity for a new style of offering. Some years ago Australia's financial landscape included a number of finance companies operating as bank subsidiaries but with these having been absorbed and the banks not operating in these areas to a large extent, there is an opportunity to provide what we see as a significant unmet need in financial services.

Thorn Equipment Finance

Thorn Equipment Finance, our commercial leasing subsidiary, is another example of using our core skills to build a new business. This business a year ago was writing contracts at the rate of \$300,000 to \$400,000 a month and is now writing \$3 million a month. It will take a while for this to filter down to our bottom line but the growth is significant. It has come about because we have invested in a new specialist sales and underwriting team, broadened the range of business segments we are covering, packaged a full suite of financing products and established new vendor and introducer networks. Customer segments we are now covering include IT, telephony, poker machines, audio visual equipment and industrial and commercial equipment.

We provide this through several different types of contracts, from hire purchase to rental, and our focus on credit quality adds rigour to our process.

NCML

The receivables management business we bought nearly 18 months ago, NCML, has had some challenging times but is now emerging strongly from a process of renewal and restructuring. Improvements have involved implementing a simplified management structure, based around functions rather than state offices, and developing a total credit cycle management model, which can provide a total outsource solution for clients. NCML will remain committed to buying debt ledgers but current market pricing does not allow us to meet hurdle rates and estimated returns on these transactions. There are some signs this could change and the market is being closely monitored. Nevertheless, NCML's focus is now more on offering clients a complete credit outsourcing solution under which NCML would assess credit, manage receivables and implement collections as needed. This offers a more efficient solution to companies who do not have the capability to implement these processes as easily, cost effectively and professionally as NCML has the ability to deliver. We believe there is a significant market opportunity for this model, particularly as more businesses face pressures on their cashflows and hence receivables management.

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Rent Drive Buy

In October we begin trialling our new product Rent, Drive, Buy, which will enable customers to obtain a quality vehicle that will be fully maintained and with the potential to obtain finance for its outright purchase after a year of payments. Our trial will go for a year to ensure the fundamentals are established for writing quality business but we believe it has considerable potential for success.

Culture

While we may have changed the face of our organisation over the past six years, we have also paid attention to its heart and soul by establishing a culture of openness, honesty and trust. We provide our people with training and an environment in which they are encouraged to act ethically towards each other, customers and the organisation. We also believe in community involvement, encouraging our people to participate, with Thorn matching any staff donations dollar for dollar, and Thorn directly supporting the Children's Tumour Foundation and Project New Dawn, which offers jobs and accommodation for the homeless.

Outlook

As we look to future financial performance, we know that our intentions to build long term growth have and will continue to involve investment in the short term in advance of returns in coming years. This will affect our rate of growth for financial year 2013, which will still be positive but perhaps not at the same rate as last year.

We know that Thorn's approach to building for the future involves ideas, people, management, resources and most important of all, time.

Currently I can report that each of our businesses is performing well.

Conclusion

It is with pleasure that I look back on what has been achieved at Thorn over recent years and in doing so I would like to thank our staff, members of the management team and my fellow directors for their support. We look forward to delivering further benefits to shareholders as we continue our commitment to innovation in making Thorn a growing and successful financial services business.

John Hughes
Managing Director