Thorn Group Limited

ABN 54 072 507 147

2018 HALF YEAR
RESULTS FOR ANNOUNCEMENT TO THE MARKET

This half year information is the information required under ASX Listing Rule 4.2A and should be read in conjunction with the most recent financial report of Thorn Group Limited

Contents

Appendix 4D Half Year Report under ASX Listing Rule 4.2A.3

Current period: 1 April 2017 to 30 September 2017
Previous corresponding period: 1 April 2016 to 30 September 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Six months ended	**30 Sep 2017 $'000s**	**30 Sep 2016 $'000s**	**% Change**
Revenue from ordinary activities – Continuing operations	132,412	151,285	Down 12.5%
Profit from discontinued operations, net of tax	1,570	1,528	Up 2.7%
Reported (loss)/ profit after tax	(9,670)	15,174	Down 163.7%

Additional commentary on the results for the period and other Appendix 4D disclosure requirements can be found in the condensed consolidated financial statements for the six months ended 30 September 2017.

This information should be read in conjunction with the 2017 Annual Financial Report of Thorn Group Limited.

DIVIDENDS	**Amount per ordinary share**	**Franked amount per ordinary share**
2017 final dividend paid 18 July 2017	2.50 cents	2.50 cents
2018 interim dividend (resolved, not yet provided at 30 September 2017)	1.00 cent	1.00 cent

The record date for the 2018 interim dividend will be 5 January 2018. The payment date for the 2018 interim dividend will be 19 January 2018. The company's dividend reinvestment plan will operate in respect of the 2018 interim dividend and a discount of 5.0% will apply.

NET TANGIBLE ASSETS	**30 Sept 2017**	**30 Sept 2016**
Net tangible assets per ordinary share	122 cents	117 cents

THORN GROUP LTD

Condensed Consolidated Financial Statements

For the six months ended 30 September 2017

ABN 54 072 507 147

CONTENTS

DIRECTORS' REPORT

For the six months ended 30 September 2017

The Directors present their report together with the condensed consolidated financial statements of Thorn Group Limited (the 'Company') and its controlled entities (together referred to as 'Thorn', the 'Group', or the 'consolidated entity') for the six months ended 30 September 2017 and the auditor's review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the interim period are:

Non-Executive

Ms Joycelyn Morton (Chair)
Mr David Foster
Mr Stephen Kulmar
Mr Andrew Stevens
Ms Belinda Gibson

Executive

Mr James Marshall (Managing Director and CEO, resigned 21 April 2017)

OPERATING AND FINANCIAL REVIEW

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

Thorn's consumer finance division was closed in March 2016 and the book placed in run off. This division has been sold subsequent to the period end. The financial performance of this discontinuing operation has been accounted for in one line on the profit and loss account.

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

Financial performance

Revenue from continuing operations decreased 12% on the previous corresponding period from $151.3m to $132.4m.

Profit after tax from all operations, including the discontinued NCML division and the Consumer Finance division, fell by 28% from $15.2m to $11.0m before the impairment of goodwill. A non cash goodwill impairment charge of $20.7m was recorded which took the final result to an after tax loss of $(9.7)m.

The fall in both revenue and profit is due mostly to the challenges faced by Group's consumer leasing division which have been flagged in prior reports and announcements. These are discussed further below.

$m	**Segment revenue**		**Segment EBIT to PAT**	
Half year ended 30 September	**2017**	**2016**	**2017**	**2016**
Consumer Leasing	108.4	134.0	16.8	20.9
Equipment Finance	18.3	11.5	9.8	6.6
Trade & Debtor Finance	5.7	5.8	1.4	1.7
Corporate	-	-	(7.3)	(5.7)
Goodwill impairment	-	-	(20.7)	-
Sub-total	**132.4**	**151.3**	**0.0**	**23.5**
Net interest expense			(6.9)	(4.0)
Profit before tax			(6.9)	19.5
Tax expense			(4.4)	(5.8)
(Loss) / Profit after tax from continuing operations			**(11.3)**	**13.7**
Profit from discontinued businesses after tax			1.6	1.5
(Loss) / Profit after tax			**(9.7)**	**15.2**

Financial performance continued

Consumer Leasing

As flagged earlier in the year, the Consumer Leasing division, operating under the Radio Rentals brand, is facing a number of challenges including general weak retail market conditions, a delay in returning customers due to the launch of the 4 year contract 3 years ago, adverse publicity from the class action launched by Maurice Blackburn, and significant operational changes arising from the roll out of the new online origination and credit assessment platform.

These challenges resulted in installation volumes for the half year being 49,801 which was 27% down on the same period last year. As a result, revenue fell 19% to $108.4m (2016-17: $134.0m). Revenue did not fall precisely in proportion to volume because revenue is a combination of interest revenue from the receivables book of past written contracts and revenue from new installations.

During the period, customer preferences also shifted slightly with a mix change away from the longer term 48 month contract towards shorter term contracts such as smartphones on 24 month contract terms. These are generally written with lower installation gross margins but at higher implicit interest rates.

The average revenue per unit at $958 was 1% below last year, a function of product and contract mix and the price reductions enacted during last year. Gross margin percentages rose 2% over last year as purchasing savings were extracted. Costs were well controlled but the margin effect of the reduction in revenue fell through to earnings. EBIT fell 19% to $16.8m (2016-17: $20.9m).

Equipment Finance

The TEF business continued to enjoy strong growth in lease originations with $113m originated in the half year (2016-17: $78m) resulting in the net receivable book growing to $302m from $239m at 31 March 2017 and $182m at 30 September 2016. This strong origination and book growth translated to strong revenue growth which increased 60% to $18.3m (2016-17: $11.5m). Credit quality remained strong with credit losses as a percentage of the book for the half year remaining low. EBIT increased 49% from $6.6m to $9.8m.

Trade & Debtor Finance

The TDF business has continued to rebuild in the period through transitioning its receivables book away from its previous higher risk and higher margin customers towards more traditional debtor finance customers. The loan book has remained fairly constant around $37m with credit losses running slightly higher. Revenue was consistent at $5.7m from $5.8m while EBIT decreased 15% from $1.7m to $1.4m.

Consumer Finance

This book has been in run off and the business was sold on 1 November 2017 for $13.3m at a value close its net assets plus cost of sale. The small solar receivables book was retained and will be run off or sold. The solar book will be accounted for as part of Corporate until that point. Revenue reduced 45% to $3.1m (2017: $5.5m) while EBIT remained steady at $2.2m (2016: $2.3m). This division has been accounted for as a discontinued segment in the financial statements.

Corporate

Corporate expenses increased 30% from $5.7m to $7.3m due to the continued investment in compliance framework, and legal and other costs involved in responding to the ongoing Australian Securities and Investment Commission investigation into Radio Rentals' responsible lending practices and, the class action.

Goodwill impairment

Following the recent profit downgrade announcement, the Company revisited its goodwill valuation for both Radio Rentals and Trade & Debtor Finance and, after seeking expert advice, directors resolved to write off all $20.7 million of goodwill on the balance sheet as a one-off non-cash charge.

Interest expense

Net borrowing costs increased by 73% from $4.0m to $6.9m as the volume of borrowing increased from $231.7m in the prior comparative period to $328.8m this period together with an increase in the credit spread charged. The increase in borrowings has been almost entirely used to fund the growth of the Equipment Finance receivables book.

Financial performance continued

Earnings per share and dividend

Earnings per share for the continuing operations for the period were (7.08) cents including goodwill impairment, and 5.94 cents without, compared to 8.79 cents for the prior corresponding period. Earnings per share including the discontinued operations were (6.09) cents (2016-17: 9.77 cents).

The directors considered the lower results for the period and the need to retain cash for balance sheet flexibility and resolved to declare a 1.0 cent dividend for this half year.

Financial position

The balance sheet is presented below in two versions; first excluding the securitised warehouse trust for the equipment finance receivables together with the associated receivables (which are non-recourse funding for the warehouse), and second including the securitised warehouse which is as per the statutory accounts format. The Company's lenders view their covenants through the first view, i.e. excluding Trust.

Summarised financial position	30 September 2017		31 March 2017		30 September 2016	
$m	**excl. Trust**	**incl. Trust**	**excl. Trust**	**incl. Trust**	**excl. Trust**	**incl. Trust**
Cash at Bank	16.1	16.1	14.7	14.7	14.6	14.6
Receivables	296.9	535.8	305.8	493.0	283.0	424.9
Investment in unrated notes	43.6	-	35.2	-	27.6	-
Rental and other assets	17.9	17.9	17.6	17.6	35.1	35.1
Assets held for sale	13.3	13.3	-	-	-	-
Intangible assets	3.6	3.6	24.3	24.3	24.7	24.7
Total Assets	**391.4**	**586.7**	**397.6**	**549.6**	**385.0**	**499.3**
Borrowings	133.5	328.8	124.5	276.5	117.4	231.7
Other liabilities	59.9	59.9	62.9	62.9	61.7	61.7
Total Liabilities	**193.4**	**388.7**	**187.4**	**339.4**	**179.1**	**293.4**
Total Equity	**198.0**	**198.0**	**210.2**	**210.2**	**205.9**	**205.9**
Gearing (net debt/equity) (i)	64.1%	162.7%	56.1%	128.4%	52.4%	107.9%
Operating cash flow		100.9		99.0		78.4
EPS		(6.1)		6.4		9.8
Return on Equity (ii)		(9.5%)		12.4%		15.0%

(i) Gearing is calculated as net debt less free cash divided by closing equity
(ii) ROE is calculated as PAT divided by average of opening and closing equity and annualised. With goodwill impairment excluded, ROE would have been 10.2%

Receivables

Receivables increased by 9% or $42.8m from $493.0m at 31 March 2017 to $535.8m at 30 September 2017. This increase was primarily driven from a 26.3% or $56.3m increase in Equipment Finance, a modest $2.3m increase in Consumer Leasing net receivables and offset by Consumer Finance net receivables of $11.9m which were reclassified as 'assets held for sale'.

Borrowings and gearing

Total borrowings have increased 18.9% or $52.3m to $328.8m (March 2017: $276.5m). This increase has been driven almost entirely by the continued growth in Thorn Equipment Finance lease receivables which is funded through the securitised receivables warehouse at an 80% attachment point.

Gearing rose 8.0 percentage points from 56.1% in the prior year end to 64.1% excluding the securitised debt. The corporate debt facility rose from $124.4m at the prior year end to $133.4m.

Funding

The group has the following debt facilities:

$m	30 September 2017	30 March 2017
Secured Corporate Loan Facilities A and B	110.0	110.0
Secured Corporate Loan Facility C	45.0	65.0
Securitised Warehouse Facility	200.0	180.0
Total loan facilities	**355.0**	**355.0**

The corporate loan facilities have a combined limit of $155.0m which at 30 September 2017 was drawn to $133.4m. Subsequent to half year end, the company received a waiver from the bank after breaching two financial ratio bank covenants at 30 September 2017. This is discussed in the going concern note below.

The securitised warehouse facility has a limit of $200.0m which at 30 September 2017 was drawn to $195.4m. The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current. This facility is available to sell into until 16th December 2018. The bank has agreed to increase the limit on this facility up to $250.0m contingent on the parallel reductions in the limit on the above corporate facilities.

PREPARATION OF FINANCIAL REPORT ON A GOING CONCERN BASIS

The directors have determined that the going concern basis should be adopted in preparing the financial report.

The company became aware during the period that it would potentially breach its bank covenant financial ratios at the end of the period. The company commenced detailed discussions with the bank and proceeded to take action to avoid the potential breach by transferring assets into securitised facilities and out of the corporate facility, but was unable to complete these actions during the period.

Accordingly, the company breached two of its bank covenant financial ratios at the period end, the Fixed Charge Cover Ratio and the Gearing Ratio, due both to declining profitability in its Consumer Leasing division and the non transfer of the assets. At period end, the corporate loan facility currently was drawn to $133.4m.

Due to the two breaches of the financial covenant clause, the bank was contractually entitled to request immediate repayment of the outstanding loan amount of $133.4m, however, based on discussions with the bank, the company did not expect that it would exercise its right to call the facility. In accordance with Australian accounting standards, the outstanding balance has consequently been presented as a current liability as at 30 September 2017 which has led to the company showing an excess of current liabilities over current assets of $2.38m.

The bank has not requested early repayment of this loan as at the date when these financial statements were approved by the Board of Directors and instead has formally waived the breach. This waiver was accompanied by a facility variation deed which requires the Company to undertake progressive debt repayments and meet new covenants. These progressive repayments will reduce the facility limit to $90m by 31 December 2017, $70m by 30 June 2018, and $50m by 30 September 2018.

The facility variation deed provides for the facility termination date to be extended to 30th November 2019 with the bank having the right to conduct an independent review of the facility on 30th September 2018.

The company will meet this repayment schedule by undertaking certain corporate actions including the sale of certain receivables into the TEF warehouse, further asset sales and alternative financing arrangements such as asset backed securities funding entities. The company has commenced this program with the sale of the consumer finance division and has repaid the corporate facilities down to $116.1m at the date of signing these accounts.

While the company reported a loss after tax for the half year it did so following the directors' resolution to impair the goodwill held on the balance sheet. The profit of the company prior to the recognition of the impairment charge was $11.0m for the half year. The company has tangible net assets of $194.5m which include $202m of current receivables due from customers which will be realised in cash over the next 12 months

Considering all the above, and acknowledging that corporate actions and refinancing always contain some risk and uncertainty, the directors have reviewed the company's cash flow forecast and, in the directors' opinion, the company can meet its required debt reductions and accordingly continue as a going concern.

PREPARATION OF FINANCIAL REPORT ON A GOING CONCERN BASIS CONTINUED

While the directors are firmly of the opinion that the company will be able to complete the planned actions described above, in the unlikely event that the actions are not completed as planned, or in accordance with the required timelines, there would be a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the 30 September 2017 interim financial report.

RISKS

Credit risk is a significant risk to the consolidated entity. Credit risk grew due to the growth of the loan and lease receivables in all segments.

Regulatory risk in relation to changes of law, regulation, or regulatory oversight has a heightened significance due to the Federal Government seeking to introduce new consumer leasing legislation, ASIC's ongoing investigation into the responsible lending conduct of Radio Rentals, and the class action against one of the company's subsidiaries in respect of the consumer leasing practices of Radio Rentals (see the Contingent Liability note).

Liquidity and refinancing risk has a heightened significance due to the new step downs introduced in the Company's latest corporate debt facility documentation. The company has and is taking expert advice in this area and is effecting corporate actions and alternative financing arrangements to meet the bank's mandated progressive repayments.

Operational risk including compliance has been a focus with the roll out of the new online origination and credit assessment platform and related processes. Operational risk also covers the implementation of technology in the credit and operational processes. Thorn has initiated a program focused on culture and conduct and workplace health and safety.

The Group is also subject to currency risk related to the direct acquisition of rental assets from overseas suppliers and does not hedge this risk.

CONTINGENT LIABILITY

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

The matter will be vigorously defended and is expected to take some time, possibly years, to resolve. No provision has been taken in these accounts. Significant legal fees are being incurred and will continue to be incurred defending the matter over the duration of that defence.

REGULATORY MATTERS

Thorn's consumer leasing division has continued to engage with the previously advised ASIC investigation into its responsible lending practices and customer credit refunds. The customer credit refunds have been substantially completed with the residual amounts fully provided a liability in the financial statements. Any amounts remaining at the conclusion of what ASIC deems a suitable period will be paid to charity.

ASIC's investigation into the responsible lending conduct of Radio Rentals has further progressed with the Company having taken up provisions in the 31 March 2017 year end accounts for the expected compensation of affected customers and an anticipated penalty. The business has expended considerable effort and expense in responding to the ASIC regulatory concerns and aims to resolve the matter in the near future.

OUTLOOK

The outlook for the Company's operations continue to be subdued.

Thorn's consumer leasing business continues to face significant headwinds resulting in continued lower volumes of installations than previously enjoyed. Opportunities to grow volume will arise when the new origination system is bedded down and the 4 year contract customers begin to return in the beginning of calendar 2018. Retail market conditions are expected to remain weak along with the impact of significant operational changes and further publicity regarding the ASIC regulatory matter and possible further media coverage from the defended class action can be anticipated to impact the Company's reputation and hence business volumes in the near term.

However, the Company will continue to strengthen its market position with added investment into a revitalised store network, taking a market leading position in product affordability and adopting new consumer protection safeguards. While these transition initiatives will constrain margins in the short term, the business will look to lift productivity with the introduction of new technologies and operating platforms to drive future profit growth including participating in any industry consolidation.

Equipment Finance is expected to maintain to its strong market position with the growth in the receivables book underpinning future earnings. Trade & Debtor Finance is expected to return to profit growth having repositioned its business strategy and having the brand, capability and systems platform in place. Corporate costs are expected to remain considerably elevated for the near term due to the cost of addressing regulatory matters and the class action.

The Company will be focused on the above mentioned corporate actions and alternative funding arrangements in order to achieve the progressive debt repayments and this has already commenced with the sale of the Consumer Finance division.

The Company flagged that the full year cash profit would be between $17m and $20m and this remains the expectation at this point. This cash profit forecast is before the impact of the non-cash, one-off goodwill impairment charge of $(20.7)m and would be $(1)m to $(4)m after.

SUBSEQUENT EVENTS

Thorn's discontinued Consumer Finance division was sold on 1 November 2017 for a total consideration of approximately $13.3m, a value approximating the value of the net assets sold and the costs of sale. Some minor assets relating to the solar loan book were not sold as part of the transaction and will continue to be run down or sold.

As noted in the going concern note, the company, subsequent to the half year end, received a waiver from the bank in relation to its covenant breach. A revised set of covenants and progressive repayment schedule were agreed with the bank as set out in the going concern note. The company has already commenced this program with the sale of the consumer finance division and has repaid the corporate facilities down to $116.1m at the date of signing these accounts.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration as required by section 307C of the Corporations Act 2001 is included on page 10.

ROUNDING

The company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements and directors' report. Amounts therefore have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar in the financial statements and directors' report.

Dated at Sydney this 22nd November 2017.

Signed in accordance with a resolution of the directors.

Joycelyn Morton
Chair

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 review of Thorn Group Limited for the half-year ended 30 September 2017 there have been:

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

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

KPMG

KPMG

Anthony Travers

Partner

Sydney

22 November 2017

CONDENSED CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

$'000 AUD	Notes	30 September 2017	30 September 2016*
Continuing operations			
Revenue		**132,412**	**151,285**
Finance lease cost of sales		(33,526)	(47,654)
Employee benefit expense		(29,330)	(28,874)
Impairment losses on loans and receivables		(13,919)	(13,133)
Marketing expenses		(7,141)	(8,738)
Property expenses		(5,638)	(5,039)
Transport expenses		(2,948)	(2,898)
Communication & IT expenses		(3,106)	(3,157)
Printing, stationary and postage		(1,226)	(1,346)
Travel expenses		(1,128)	(1,146)
Other expenses		(8,807)	(7,583)
Depreciation & amortisation		(4,943)	(8,238)
Impairment of intangibles		(20,658)	-
Total operating expenses		**(132,370)**	**(127,806)**
Earnings before interest and tax ("EBIT")		42	23,479
Finance expenses		(6,900)	(3,985)
(Loss) / Profit before income tax		(6,858)	19,494
Income tax		(4,382)	(5,848)
(Loss) / Profit after tax from continuing operations		**(11,240)**	**13,646**
Discontinued operations			
Profit from discontinued operations, net of tax	11	1,570	1,528
(Loss) / Profit after tax		**(9,670)**	**15,174**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Movement in fair value of cash flow hedges		186	(312)
Total comprehensive (loss) / income		**(9,484)**	**14,862**
Earnings per share– continuing operations			
Basic earnings per share (cents)	9	(7.08)	8.79
Diluted earnings per share (cents)	9	(7.08)	8.79
Earnings per share			
Basic earnings per share (cents)	9	(6.09)	9.77
Diluted earnings per share (cents)	9	(6.09)	9.77

Condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

** Restated to redirect the results the newly discontinued business, Consumer Finance, into one line above Profit after tax. For details see note 11.*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2017

$'000 AUD	Note	30 September 2017	31 March 2017
Assets			
Cash and cash equivalents		16,108	14,681
Trade and other receivables		202,265	185,578
Income tax receivable		4,027	5,916
Assets held for sale	11	13,279	-
Total current assets		**235,679**	**206,175**
Trade and other receivables		333,579	307,397
Property, plant and equipment		5,773	5,058
Rental assets		8,076	6,651
Intangible assets	12	3,584	24,322
Total non-current assets		**351,012**	**343,428**
Total assets		**586,691**	**549,603**
Liabilities			
Trade payables		10,728	12,011
Other payables		16,603	23,121
Loans and borrowings	7	195,257	46,904
Employee benefits		5,895	5,414
Provisions		9,579	9,037
Total current liabilities		**238,062**	**96,487**
Loans and borrowings	7	133,519	229,559
Deferred tax liabilities		16,118	12,163
Employee benefits		485	309
Provisions		472	847
Total non-current liabilities		**150,594**	**242,878**
Total liabilities		**388,656**	**339,365**
Net assets		**198,035**	**210,238**
Equity			
Issued capital		116,621	115,340
Reserves		3,121	2,979
Retained earnings		78,293	91,919
Total equity		**198,035**	**210,238**

The condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2016	109,854	3,188	84,491	197,533
Total comprehensive income				
Net profit for the period	-	-	15,174	15,174
Other comprehensive income	-	(312)	-	(312)
Total comprehensive income	**-**	**(312)**	**15,174**	**14,862**
Transactions with owners of the company				
Issue of shares under dividend reinvestment plan	2,611	-	-	2,611
Share based payments transactions	-	180	-	180
Dividends to shareholders	-	-	(9,268)	(9,268)
Total transactions with owners of the company	**2,611**	**180**	**(9,268)**	**(6,477)**
Balance at 30 September 2016	**112,465**	**3,056**	**90,397**	**205,918**

$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2017	115,340	2,979	91,919	210,238
Total comprehensive income				
Net (loss) for the period	-	-	(9,670)	(9,670)
Other comprehensive income	-	186	-	186
Total comprehensive income	**-**	**186**	**(9,670)**	**(9,484)**
Transactions with owners of the company				
Issue of share under dividend reinvestment plan	1,281	-	-	1,281
Share based payments transactions	-	(44)	-	(44)
Dividends to shareholders	-	-	(3,956)	(3,956)
Total transactions with owners of the company	**1,281**	**(44)**	**(3,956)**	**(2,719)**
Balance at 30 September 2017	**116,621**	**3,121**	**78,293**	**198,035**

The condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 September 2017

$'000 AUD	30 September 2017	30 September 2016
Cash flows from operating activities		
Cash receipts from customers	366,132	314,682
Cash paid to suppliers and employees	(257,623)	(224,492)
Cash generated from operations	**108,509**	**90,190**
Net borrowing costs	(6,900)	(3,985)
Income tax paid	(663)	(7,780)
Net cash from operating activities	**100,946**	**78,425**
Cash flows from investing activities		
Proceeds from sale of assets	-	76
Acquisition of rental assets	(33,216)	(52,880)
Equipment finance originations	(113,746)	(72,724)
Acquisition of property, plant and equipment and software	(2,195)	(789)
Net cash received on sale of subsidiary	-	21,185
Net cash used in investing activities	**(149,157)**	**(105,132)**
Cash flows from financing activities		
Proceeds from borrowings	89,654	89,008
Repayment of borrowings	(37,341)	(55,139)
Net dividends paid	(2,675)	(6,657)
Net cash from financing activities	**49,638**	**27,212**
Net increase in cash and cash equivalents	1,427	505
Cash and cash equivalents at April 1	14,681	14,049
Cash and cash equivalents at 30 September	**16,108**	**14,554**

The condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

1. REPORTING ENTITY

Thorn Group Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 September 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group for the year ended 31 March 2017 are available upon request from the Company's registered office at Level 1, 62 Hume Highway, Chullora NSW 2190, or on the Company's website www.thorn.com.au

2. PREPARATION OF FINANCIAL REPORT ON A GOING CONCERN BASIS

The directors have determined that the going concern basis should be adopted in preparing the financial report.

The company became aware during the period that it would potentially breach its bank covenant financial ratios at the end of the period. The company commenced detailed discussions with the bank and proceeded to take action to avoid the potential breach by transferring assets into securitised facilities and out of the corporate facility, but was unable to complete these actions during the period.

Accordingly, the company breached two of its bank covenant financial ratios at the period end, the Fixed Charge Cover Ratio and the Gearing Ratio, due both to declining profitability in its Consumer Leasing division and the non transfer of the assets. At period end, the corporate loan facility currently was drawn to $133.4m.

Due to the two breaches of the financial covenant clause, the bank was contractually entitled to request immediate repayment of the outstanding loan amount of $133.4m, however, based on discussions with the bank, the company did not expect that it would exercise its right to call the facility. In accordance with Australian accounting standards, the outstanding balance has consequently been presented as a current liability as at 30 September 2017 which has led to the company showing an excess of current liabilities over current assets of $2.38m.

The bank has not requested early repayment of this loan as at the date when these financial statements were approved by the Board of Directors and instead has formally waived the breach. This waiver was accompanied by a facility variation deed which requires the Company to undertake progressive debt repayments and meet new covenants. These progressive repayments will reduce the facility limit to $90m by 31 December 2017, $70m by 30 June 2018, and $50m by 30 September 2018.

The facility variation deed provides for the facility termination date to be extended to 30th November 2019 with the bank having the right to conduct an independent review of the facility on 30th September 2018.

The company will meet this repayment schedule by undertaking certain corporate actions including the sale of certain receivables into the TEF warehouse, further asset sales and alternative financing arrangements such as asset backed securities funding entities. The company has commenced this program with the sale of the consumer finance division and has repaid the corporate facilities down to $116.1m at the date of signing these accounts.

While the company reported a loss after tax for the half year it did so following the directors' resolution to impair the goodwill held on the balance sheet. The profit of the company prior to the recognition of the impairment charge was $11.0m for the half year. The company has tangible net assets of $194.5m which include $202m of current receivables due from customers which will be realised in cash over the next 12 months

Considering all the above, and acknowledging that corporate actions and refinancing always contain some risk and uncertainty, the directors have reviewed the company's cash flow forecast and, in the directors' opinion, the company can meet its required debt reductions and accordingly continue as a going concern.

While the directors are firmly of the opinion that the company will be able to complete the planned actions described above, in the unlikely event that the actions are not completed as planned, or in accordance with the required timelines, there would be a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the 30 September 2017 interim financial report.

3. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 31 March 2017.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 November 2017

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated annual financial statements as at and for the year ended 31 March 2017.

5. ESTIMATES

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 March 2017.

6. OPERATING SEGMENTS

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

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.

The Consumer Finance division was in run off during the period and has been sold subsequent to the half year end.

Information about reportable segments for the period

30 September 2017 $'000 AUD	**Consumer Leasing**	**Equipment Finance**	**Trade & Debtor Finance**	**Consumer Finance (Discontinued operation**)**	**Corporate***	**Consolidated**
Segment revenue	108,355	18,316	5,741	3,073	-	135,485
Operating expenses	(87,642)	(8,435)	(4,235)	(830)	(6,457)	(107,599)
EBITDA	**20,713**	**9,881**	**1,506**	**2,243**	**(6,457)**	**27,886**
Depreciation, amortisation and impairment	(3,876)	(114)	(65)	-	(21,546)	(25,601)
EBIT	**16,837**	**9,767**	**1,441**	**2,243**	**(28,003)**	**2,285**
Finance expense	-	-	-	-	(6,900)	(6,900)
Profit / (loss) before tax	**16,837**	**9,767**	**1,441**	**2,243**	**(34,903)**	**(4,615)**
Segment assets	201,205	295,521	40,902	17,677	31,566	586,691
Segment liabilities	(59,008)	-	(872)	-	(328,776)	(388,656)

6. OPERATING SEGMENTS CONTINUED

30 September 2016 $'000 AUD	Consumer Leasing	Equipment Finance	Trade & Debtor Finance	Consumer Finance (Discontinued operation**)	Credit Management (Discontinued operation**)	Corporate*	Consolidated
Segment revenue	134,025	11,437	5,823	5,544	7,080	-	163,909
Operating expenses	(106,017)	(4,799)	(4,075)	(3,203)	(7,121)	(4,677)	(129,892)
EBITDA	**28,008**	**6,638**	**1,748**	**2,341**	**(41)**	**(4,677)**	**34,017**
Depreciation, amortisation and impairment	(7,106)	(85)	(58)	(20)	(97)	(989)	(8,355)
EBIT	**20,902**	**6,553**	**1,690**	**2,321**	**(138)**	**(5,666)**	**25,662**
Finance expense	-	-	-	-	-	(3,985)	(3,985)
Profit before tax	**20,902**	**6,553**	**1,690**	**2,321**	**(138)**	**(9,651)**	**21,677**
Segment assets	204,902	178,827	38,984	27,869	-	48,688	499,270
Segment liabilities	(59,396)	-	(2,215)	-	-	(231,741)	(293,352)

* The segment note includes a column for corporate costs. A new allocation method was adopted in March 2017 to improve disclosure and accordingly the comparative September 2016 disclosure has been restated using the new allocation basis.

** See Note 11

Reconciliations of reportable segment to IFRS measures

$'000 AUD	30 September 2017	30 September 2016
Revenue		
Total revenue for reportable segments	135,485	163,909
Elimination of discontinued operations	(3,073)	(12,624)
Consolidated Revenue	**132,412**	**151,285**
Profit before tax		
Total (loss) / profit before tax for reportable segments	(4,615)	21,677
Elimination of discontinued operations	(2,243)	(2,183)
Consolidated (loss) / profit before tax from continuing operations	**(6,858)**	**19,494**

7. LOANS AND BORROWINGS

$'000 AUD	30 September 2017	31 March 2017
Current liabilities		
Secured loans	195,257	46,904
Non- Current liabilities		
Secured loans	133,519	229,559
	328,776	**276,463**

7. LOANS AND BORROWINGS CONTINUED

$'000 AUD	30 September 2017	31 March 2017
Corporate loan facility	110,000	110,000
Utilised	103,400	94,400
Available headroom	**6,600**	**15,600**
Corporate loan facility	45,000	65,000
Utilised	30,000	30,000
Available headroom	**15,000**	**35,000**
Securitised warehouse facility	200,000	180,000
Utilised	195,376	152,063
Available headroom	**4,624**	**27,937**
Total loan facilities	355,000	355,000
Utilised	328,776	276,463
Loan facilities not utilised at reporting date	**26,224**	**78,537**

The Company has multi option syndicated corporate loan facilities with a combined limit of $155,000,000 secured by a fixed and floating charge over the assets of the consolidated entity. As at 30 September 2017 this was drawn to $133,400,000. Subsequent to half year end this facility was renegotiated and the termination date extended to 30th November 2019 as described in the going concern note.

The Company also has a securitised warehouse loan facility with a limit of $200,000,000 secured on the underlying finance lease contracts in its Equipment Finance division. The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current. As at 30 September 2017 this facility was drawn to $195,376,000. This facility is available for sell down until 16 December 2018. The facility limit rises on parallel reductions in the limit on the above corporate facilities.

8. CAPITAL AND RESERVES

Dividends

	Six months ended 30 September 2017		
	Cents per share	**Total $'000s**	**Date paid / payable**
Recognised Amounts			
Final Dividend	2.5 cents	3,956	18 July 2017
Unrecognised Amounts			
Interim Dividend	1.0 cent	1,593	19 January 2018

	Six months ended 30 September 2016		
	Cents per share	**Total $'000s**	**Date paid / payable**
Recognised Amounts			
Final Dividend	6.0 cents	9,268	18 July 2016
Unrecognised Amounts			
Interim Dividend	5.5 cents	8,611	20 January 2017

All of the above dividend payments were franked to 100% at the 30% corporate income tax rate.

9. EARNINGS PER SHARE

Basic earnings per share

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

The calculation of basic earnings per share for the six months ended 30 September 2017 was based on loss attributable to ordinary shareholders of $(9,670,000) (2016: $15,174,000) and a weighted average number of ordinary shares of 158,664,000 (2016: 155,323,000).

Diluted earnings per share

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

The calculation of basic earnings per share for the six months ended 30 September 2017 was based on loss attributable to ordinary shareholders of $(9,670,000) (2016: $15,174,000) and a weighted average number of ordinary shares of 158,664,000 (2016: 155,323,000).

$'000 AUD	30 September 2017	30 September 2016*
Earnings per share		
Profit attributable to ordinary shareholders (basic)		
Profit attributable to ordinary shareholders (basic and diluted) – continuing operations	(11,240)	13,646
Profit attributable to ordinary shareholders (basic and diluted)	(9,670)	15,174
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 April	158,247	154,467
Effect of shares issued	417	856
Weighted average number of ordinary shares for the period	158,664	155,323
Weighted average number of ordinary shares (diluted)		
Issued ordinary shares at 1 April	158,247	154,467
Effect of shares issued	417	856
Weighted average number of ordinary shares for the period	158,664	155,323
Earnings per share - continuing operations		
Basic earnings per share (cents)	(7.08)	8.79
Diluted earnings per share (cents)	(7.08)	8.79
Earnings per share		
Basic earnings per share (cents)	(6.09)	9.77
Diluted earnings per share (cents)	(6.09)	9.77

* Profit attributable to continuing operations restated for Consumer Finance.

10. CONTINGENT LIABILITY

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

The matter will be vigorously defended and is expected to take some time, possibly years, to resolve. No provision has been taken in these accounts. Significant legal fees are being incurred and will continue to be incurred defending the matter.

11. DISCONTINUED OPERATIONS

The assets of the Consumer Finance division have been presented as a disposal group held for sale. Revenue and expenses of this division have been eliminated from the profit or loss of the Group's continuing operations and shown as a single line item on the face of the statement of profit or loss and other comprehensive income (2016 profit includes a loss of $97,000 from the disposal of NCML). Consumer Finance was sold on 1 November 2017 excluding the small solar loan book.

Result of discontinued operation

$'000 AUD	30 September 2017	30 September 2016
Revenue	3,073	12,624
Expenses	(830)	(9,427)
Results from operating activities	**2,243**	**3,197**
Income tax	(673)	(959)
Results from operating activities, net of tax	**1,570**	**2,238**
(Loss) on sale of discontinued operation	-	(1,014)
Income tax benefit on sale of discontinued operation	-	304
Profit from discontinued operations, net of tax	**1,570**	**1,528**

Cash flow (used in) discontinued operation

$'000 AUD	30 September 2017	30 September 2016
Net cash used in operating activities	5,022	6,561
Net cash from investing activities	-	(19)
Net cash from financing activities	(5,151)	(10,230)
Net cash flows for the year	**(129)**	**(3,688)**

Assets of disposal group held for sale

$'000 AUD	30 September 2017
Trade and other receivables	11,932
Deferred tax assets	1,347
Total assets held for sale	**13,279**

12. INTANGIBLE ASSETS

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

Six months ended 30 September 2017			
Opening net carrying amount	20,658	3,664	24,322
Additions	-	615	615
Amortisation and Impairment charges for the year	(20,658)	(695)	(21,353)
Closing net book amount	**-**	**3,584**	**3,584**
At 30 September 2017			
Cost	20,658	13,023	31,779
Amortisation and Impairment	(20,658)	(9,439)	(28,195)
Net book amount	**-**	**3,584**	**3,584**

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities of the acquired business. Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Other Intangibles

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

Amortisation

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

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

Impairment tests for Cash Generating Units (CGU) containing goodwill

Valuation of goodwill and other intangibles

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

Impairment of goodwill

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

The following units have significant carrying amounts of goodwill:

12. INTANGIBLE ASSETS CONTINUED

$'000 AUD	30 September 2017	31 March 2017
Consumer leasing	-	15,604
Trade & Debtor Finance	-	5,054
Total	**-**	**20,658**

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

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

The method of calculation has changed from the previous year end where we used value in use. This change occurred due to the recoverable amount being deemed to be the higher of fair value less cost to sell and the value in use of the company.

Key assumptions used for value-in-use calculations

Consumer Leasing

Testing using a fair value less cost of disposal revealed the carrying amount of the CGU exceeded its recoverable amount. An impairment charge for the total value of the intangible of the CGU of $15.6m has been recognised in the income statement for the half year ended 30 September 2017. The impairment amount required the goodwill only to be written off with other assets including rental assets still being carried at book value. The circumstances that led to this impairment included lower than expected business performance since the previous year end which prompted a downgrade to the future outlook in terms of both growth and cash flows.

The key assumptions used in the estimation of the recoverable amount are set out as follows. Testing included a terminal value calculated using the cash flows for year 5 of the forecast period and a long-term growth rate of 2.0%. During the forecast period, revenue was assumed to grow at an average 0.7% which included installation growth of 13% between 2018 and 2022. Volume related costs have increased according to the increased volume during the testing period. Other costs have been either increased by CPI or contracted arrangements, or where reasonable kept flat with productivity savings assumptions. The pre-tax discount rate is assumed at 11.3%.

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

Trade & Debtor Finance

Testing using a fair value less cost of disposal revealed the carrying amount of the CGU exceeded its recoverable amount. An impairment charge for the total value of the intangible of the CGU of $5.1m has been recognised in the income statement for the half year ended 30 September 2017. The impairment amount required the goodwill only to be written off with other assets still being carried at book value. The circumstances that led to this impairment included lower than expected business performance since the previous year end which prompted a downgrade to the future outlook in terms of both growth and cash flows.

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

13. SUBSEQUENT EVENTS

Thorn's discontinued Consumer Finance division was sold on 1 November 2017 for a total consideration of approximately $13.3m, a value approximating the value of the net assets sold and the costs of sale. Some minor assets relating to the solar loan book were not sold as part of the transaction and will continue to be run down or sold.

As noted in the going concern note, the company, subsequent to the half year end, received a waiver from the bank in relation to its covenant breach. A revised set of covenants and progressive repayment schedule were agreed with the bank as set out in the going concern note. The company has already commenced this program with the sale of the consumer finance division and has repaid the corporate facilities down to $116.1m at the date of signing these accounts.

DIRECTOR'S DECLARATION

For the six months ended 30 September 2017

Directors' Declaration

In the opinion of the directors of Thorn Group Limited:

1. the financial statements and notes set out on pages 10 to 22 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Group's financial position as at 30 September 2017 and of its performance for the six month period ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by section 295 of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

Joycelyn Morton
Chair

Dated at Sydney, on 22 November 2017.

Independent Auditor's Review Report

To the shareholders of Thorn Group Limited,

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Thorn Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Thorn Group Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 30 September 2017 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 30 September 2017;
- Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information;
- The Directors' Declaration.

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

Material uncertainty related to going concern – emphasis of matter

We draw attention to Note 2, "Going Concern" in the interim financial report. The conditions disclosed in Note 2, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the interim financial report. Our conclusion is not modified in respect of this matter.

KPMG

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

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

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Thorn Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Anthony Travers

Anthony Travers
Partner

Sydney
22 November 2017

ASX & MEDIA RELEASE 22 NOVEMBER 2017

THORN HALF YEAR RESULTS DOWN, GOODWILL IMPAIRED, BUSINESS ISSUES PROGRESSED

Consumer leasing and business finance company, Thorn Group Limited (ASX: TGA), reports lower revenue and profit for the half year to 30 September 2017 due to ongoing challenges in its consumer leasing division partly offset by another strong performance from business finance.

Half year results on a cash basis are in line with guidance provided, with revenue from continuing operations down 12 per cent from the previous corresponding period to $132.4 million and profit after tax from all operations 28 per cent lower at $11.0 million (before the goodwill write-off).

One of the issues affecting consumer leasing has been lower contract renewals because of the introduction of popular four year lease contracts three years ago. This issue will abate as 2018 progresses and these customers reach the end of their existing lease and many elect to take a new one.

Combined EBIT of Thorn's consumer leasing and business finance divisions is $28.0 million, 4 per cent lower than $29.2 million in the previous corresponding period, with 60 per cent (72 per cent previously) from consumer leasing and 40 per cent (28 per cent previously) from business finance.

Faster growing business finance has lifted group receivables 26 per cent to $535.8 million ($424.9 million), with business finance representing 62 per cent of receivables.

Thorn's corporate centre costs were up $1.6m as legal, risk and advisory costs were incurred in addressing the consumer leasing division's legal and regulatory issues, and strengthening the compliance framework.

Goodwill impairment

Following the recent profit downgrade announcement, the Company revisited its goodwill valuation and directors resolved to write off all $20.7 million of goodwill on the balance sheet as a one-off non-cash impairment charge.

This resulted in a bottom line loss after tax for the half year of $(9.7) million compared with a profit of $15.2 million previously.

Funding covenant breach and progressive debt repayments

Thorn has corporate loan facilities and a securitised warehouse facility which together provide a group facility total of $355 million. The company became aware during the half year that it would potentially breach two of its bank covenant financial ratios and commenced detailed discussions with the bank to avoid this. The actions to address this could not be completed in time and Thorn consequently breached.

Subsequent to the half year balance date, Thorn received a waiver from the bank along with a facility variation deed. This deed extended the company's facility term and inserted new conditions including revised financial ratio covenants and a schedule of progressive repayments which require the $133 million drawn at balance date be reduced progressively to under $90 million by 31 December 2017, $70 million by 30 June 2018 and $50 million by 30 September 2018.

These progressive debt repayments will need to be met with continued corporate actions including the sale of assets and the establishment of alternative financing arrangements in conjunction with the bank. The company has commenced this program with the first step the sale of the Consumer Loan division which completed on 1 November 2017.

Thorn's directors note the importance of achieving these progressive repayments to maintaining Thorn's funding and note also the auditor's emphasis of matter statement in their review report.

Total borrowings have increased 18.9 per cent to $328.8 million in the period, principally due to TEF growth and gearing is up from 56.1 per cent at end March 2017 to 64.1 per cent, excluding securitised debt.

Dividend

In light of this financial performance, and with progressive repayments required in relation to debt and a need to preserve cash for business growth and balance sheet flexibility, Thorn directors decided to pay a reduced half year dividend of 1.0 cent, fully franked.

Commentary

Thorn's acting CEO, Peter Forsberg, said the half year results reflected the transition process underway at Thorn and particularly in resolving the issues which have affected the consumer leasing business over the past few years.

"While the consumer leasing business still faces headwinds including declining volumes for many reasons, the business has made considerable progress on many fronts including addressing its cost position, making its pricing more competitive and improving the customer value proposition, and making it a much better operation in terms of risk management and customer outcomes," Mr Forsberg said.

"The combination of this progress with a growing business finance division positions Thorn on a path towards achieving stability," Mr Forsberg said.

Consumer Leasing

While generally weak retail market conditions and a delay in returning customers due to the launch of the four year contract three years ago affected performance overall, gross margin percentages rose as purchasing savings were extracted and costs were well controlled.

Revenue fell 19 per cent to $108.4m (2016-17: $134.0m) and EBIT fell 19 per cent to $16.8m (2016-17: $20.9m).

Within its consumer leasing division, Thorn has lowered prices and expanded its product range to be wider, more modern and affordable, with benefits coming from outlets in higher traffic shopping centre locations and a more targeted marketing spend.

The online customer application and credit assessment system is now fully rolled out nationally and a new plain English contract will be released in coming months.

Business Finance

Equipment Finance (TEF) continues to be a stand out performer while Trade and Debtor Finance (TDF) was affected by its ongoing transition away from higher risk business.

For TEF, revenue increased 58 per cent to $18.3 million (2016-17: $11.5million) and EBIT was up 49 per cent from $6.6 million to $9.8 million.

This strong growth was driven by effective relationships with brokers and strategic partners, a positive contribution from the franchise segment under the “Cashflow IT” partnership, a diverse customer base and a stable level of arrears and losses.

TDF revenue was similar to the previous year at $5.7 million ($5.8 million) while EBIT decreased 15 per cent from $1.7m to $1.4m.

TDF’s loan book was stable due to a strategic focus on managing out challenged clients and migrating towards sustainable growth and diversity.

Consumer Finance

This business has been in run off and contributed $1.5 million to PAT in the period before any interest allocation. It was sold on 1 November for $13.3 million, representing close to net asset value.

Outlook

The outlook for Thorn’s operations continues to be subdued.

While consumer leasing continues to face significant headwinds in a difficult retail climate, customer loyalty and returning customers in 2018 together with the progress being made in addressing business issues should allow for a gradual return to a more stable business platform.

Over the medium term, the large and loyal customer base in consumer leasing, prices that are already under the proposed legislative caps, and the efficient cost base will position it for industry leadership and growth.

Business finance is expected to continue its strong market position.

It is expected that, in the near future, Thorn will resolve its regulatory matters with ASIC, with Thorn already having made provision for this. Costs arising in defence of the class action will continue.

Thorn’s management will also be focused on the corporate actions and alternative funding arrangements required to meet the progressive debt repayments.

Thorn notes again its profit guidance advice that its full year cash profit after tax will be in the range of $17 - $20 million. This is before the goodwill write-off and so, with that included, the reported profit after tax is forecast to be between loss of $(1) - $(4) million.

THORN
GROUP LTD

Half Year Results
Presentation
2017/18

Agenda

Peter Forsberg, Acting CEO
Matt Ingram, COO

1. Overview
2. Results
3. Divisional performance
4. Regulatory matters
5. Outlook
6. Questions

Business Overview

- Thorn Group is a financial services organisation focused on Consumer Leasing and Business Finance
- Challenging period for Consumer Leasing (Radio Rentals) resulted in lower volumes, revenue and earnings despite progress made in costs, range, pricing, and improved operational and risk management
- Continued strong performance from Business Finance
- Thorn Financial Services (TFS) consumer loan business sold 1 November for $13m

Performance Overview

- Revenue from continuing operations down 12% to $132.4m, operating EBIT down 12% to $20.7m
- Cash profit after tax, before goodwill write-off, down 28% to $11.0m
- Decision taken to write off goodwill of $20.7m
- Reported profit after tax is a loss of $(9.7)m, EPS (6.1) cents
- Interim dividend proposed of 1.0 cent, fully franked
- Receivables book up 26% to $535.8m
- Gearing, excluding the non recourse securitised facility, up 8%pts to 64.1%

Group Half Year Results Summary

		September '17	March '17	September '16	Sep-17 v Sep-16 % change
Revenue – continuing operations	$m	**132.4**	137.5	151.3	(12.5%)
EBIT reported / pre goodwill adjustment	$m	**0.0 / 20.7**	19.6	23.5	nm / (11.9%)
PAT reported / pre goodwill adjustment	$m	**(9.7) / 11.0**	10.0	15.2	nm / (27.6%)
EPS reported / pre goodwill adjustment	cents	**(6.1) / 6.0**	6.4	9.8	nm / (30.6%)
Dividend	cents	**1.0**	2.5	5.5	(81.8%)
Return on equity [1]	%	**(9.5)**	12.4	15.0	nm
Receivables [2,3]	$m	**535.8**	493.0	424.9	26.1%
Borrowings	$m	**328.8**	276.5	231.7	41.9%
Gearing (net debt/equity) [4]	%	**64.1**	56.1	52.4	8.7 pts
Net tangible assets per share	$	**1.20**	1.17	1.17	2.6%

Notes:

1. ROE is calculated as PAT divided by average of opening and closing equity and annualized. With goodwill impairment excluded ROE would have been 10.2%.
2. Receivables on a net basis, i.e. exclusive of unearned interest and net of provisioning for credit losses.
3. Receivables excludes Consumer Finance loan book for September 2017(classified as in the balance sheet as assets held for sale)
4. Gearing is calculated as the closing net debt (senior borrowing less free cash) divided by closing equity. This calculation excludes the warehouse debt and its corresponding secured receivables. Gearing including warehoused debt and receivables would be 162.7% (128.4% for 2017)

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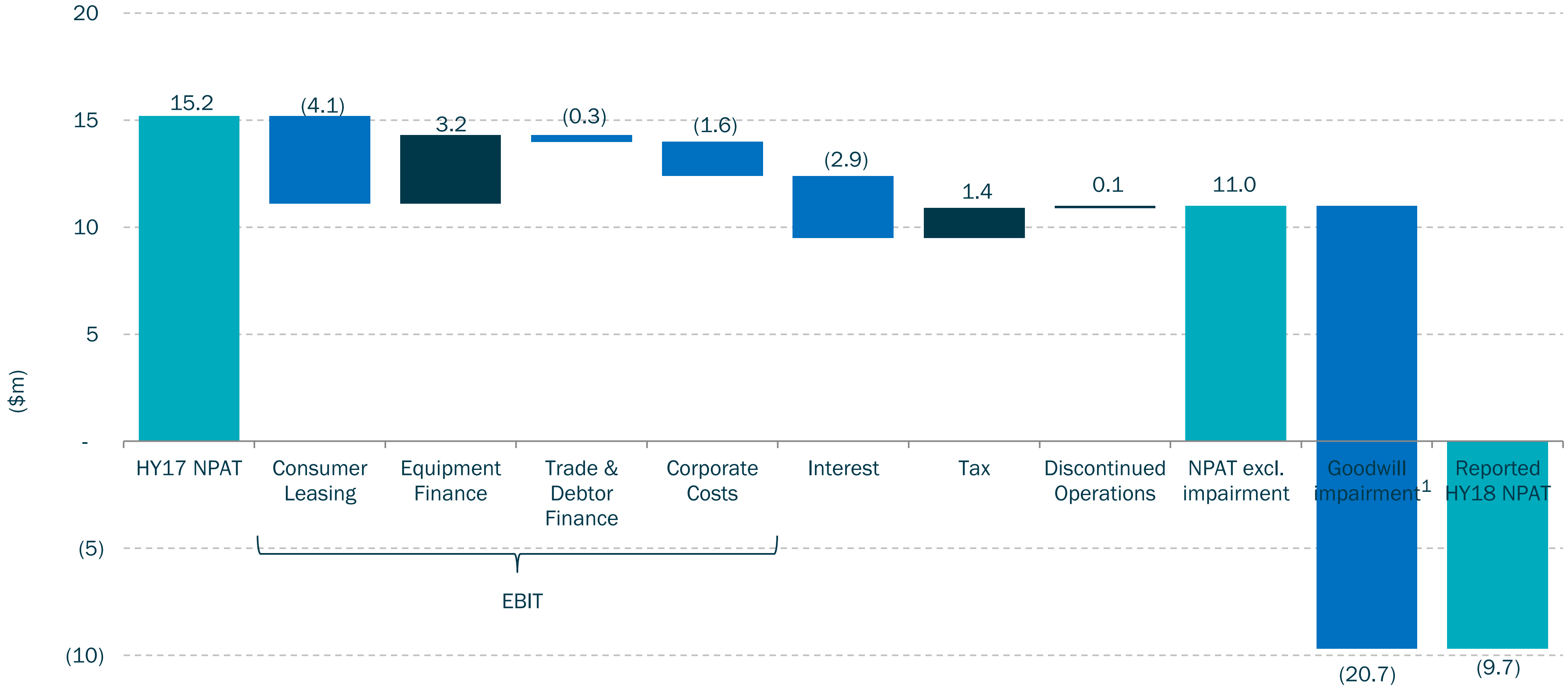
NPAT Bridge



Notes:

1. Goodwill impairment for Consumer Leasing ($15.6m) and Trade & Debtor Finance ($5.1m)

2. Discontinued operations (net of tax) includes Consumer Finance in September 2017 (2016: Consumer Finance and Receivables Management)

Balance Sheet

	September 17		March 17	
	excl. Trust[2]	incl. Trust	excl. Trust[2]	incl. Trust
Cash at Bank	**16.1**	**16.1**	14.7	14.7
Receivables	**296.9**	**535.8**	305.8	493.0
Investment in unrated notes	**43.6**	**-**	35.2	-
Rental and other assets	**17.9**	**17.9**	17.6	17.6
Assets held for sale	**13.3**	**13.3**	-	-
Intangibles	**3.6**	**3.6**	24.3	24.3
Total Assets	**391.4**	**586.7**	397.6	549.6
Borrowings	**133.5**	**328.8**	124.5	276.5
Other Liabilities	**59.9**	**59.9**	62.9	62.9
Total Liabilities	**193.4**	**388.7**	187.4	339.4
Total Equity	**198.0**	**198.0**	210.2	210.2
Gearing (net debt/equity)	**64.1%**	**162.7%**	56.1%	128.4%

- Receivables up \$42.8m to \$535.8m
- Assets held for sale is the \$13.3m TFS consumer loan division sold after period end
- Intangibles reduction is the goodwill write-off
- Borrowings up to fund the receivables growth, in particular Equipment Finance
- Gearing increased by 8 percentage point (excluding Trust) which is 2pts due to increased in borrowings and 6pts to the reduction in equity on goodwill impairment

Notes:

1. Equipment Finance receivables are funded by a securitised warehouse trust arrangement where the borrowings are non-recourse to Thorn but secured by the underlying receivables themselves. Trust gearing remains the same between the years at 80% bank funded.
2. The column excluding Trust excludes the securitised receivables and corresponding borrowings but includes Thorns equity interest in the warehouse through unrated notes.

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Receivables

		September 17 ($m)	March 17 ($m)	September 16 ($m)	Sep-17 v Mar-17 (%)
Consumer Leasing	Lease Book[1]	**175.3**	172.8	163.3	1.4%
	Rental Assets[2]	**8.1**	6.7	12.7	20.9%
Equipment Finance	Lease Book[1]	**295.5**	239.3	182.1	23.5%
Trade & Debtor Finance	Invoice & Loan Book[1]	**37.6**	38.4	37.0	(2.1%)
Consumer Finance	Loan Book[1,3]	**11.8**	16.4	22.8	(28.0%)
	Solar Book[1]	**4.4**	4.9	4.8	(10.2%)
Trade Receivables, Prepayments & Other		**23.1**	21.2	14.9	9.0%
Receivables (excluding rental assets)[4]		**535.8**	493.0	424.9	8.7%

Notes:

1. Receivables are presented on a net basis, that is exclusive of unearned interest and net of bad and doubtful debt provisioning.
2. Rental assets (includes warehouse and show room stock) and assets leased under short term operating leases are depreciated as fixed assets in the balance sheet.
3. Consumer Finance loan book sold after period end
4. Receivables total excludes Consumer Finance loan book in September 2017 (classified as assets held for sale)

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Credit Quality

Consumer Leasing	Sept 17	March 17	Sept 16
Average arrears[1] (30+ days)	**9.3%**	8.4%	8.0%
Impairment Losses ($m)	**10.0**	9.6	7.9
Impairment losses / ANR %[2]	**5.1%**	5.1%	4.6%
Equipment Finance			
Average arrears[3] (30+ days)	**2.4%**	2.1%	2.1%
Impairment Losses ($m)	**2.1**	1.9	1.4
Impairment losses / ANR %[2]	**0.8%**	0.9%	0.9%
Trade and Debtor Finance			
Impairment Losses ($m)	**1.1**	2.7	0.0
Impairment losses / ANR %[2]	**2.8%**	6.3%	0.0%

- Consumer Leasing
  - Arrears have increased and reflect some household budget stress
  - Impairment losses are in line with book growth
- Equipment Finance
  - Arrears rising but maintained under 2.5% benchmark
  - Impairment losses have increased as book matures but still within expectations
- Trade & Debtor Finance
  - Write-offs relate to non core clients being managed out

Notes:

1. Calculated as average current arrears balance of delinquent accounts expressed as a % of total monthly billings.
2. Impairment losses expressed as % of average net receivables.
3. Calculated as average current arrears balance expressed as a % of net interest bearing receivables.
4. Impairment losses stated here are the actual write offs processed in the 6 months period. Annualised would be higher.

Borrowings

- Corporate facility drawn by $8m since March but subsequently repaid from sale of TFS consumer loan division
- Securitised warehouse facility for Equipment Finance drawn by a further $43m to fund the strong growth
- Waiver from the bank on covenant financial ratios breach on corporate facilities
- Corporate facility extended and new covenants instituted along with progressive repayment schedule
- Maturity profile:
  - Corporate facility $155m limit to step down to $90m by Dec 2017, $70m by June 2018, and $50m Sept 2018 with final maturity Nov 2019 (annual review Sep 2018)
  - Step downs to be addressed by corporate actions and alternative financing proposals agreed with the bank
  - Program started with TFS consumer loan division sale
  - Warehouse facility $200m matures in Dec 2018 but warehouse nature means repaid through lease repayments over term of leases (no bullet)

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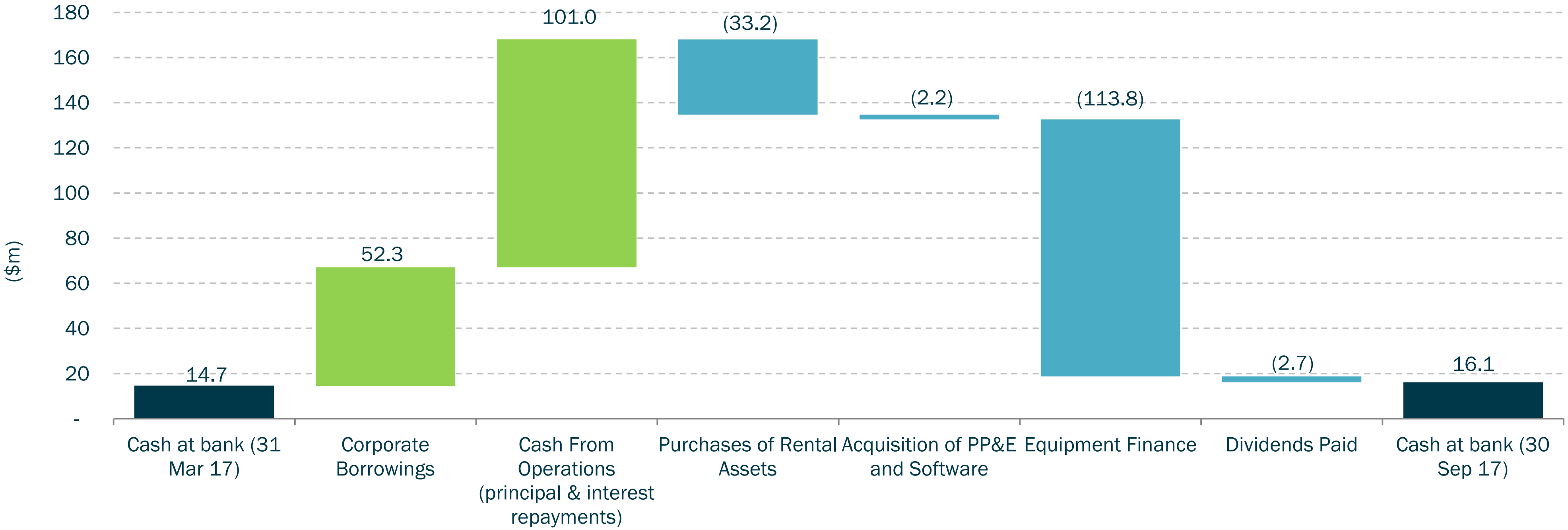
Cash Flow Bridge



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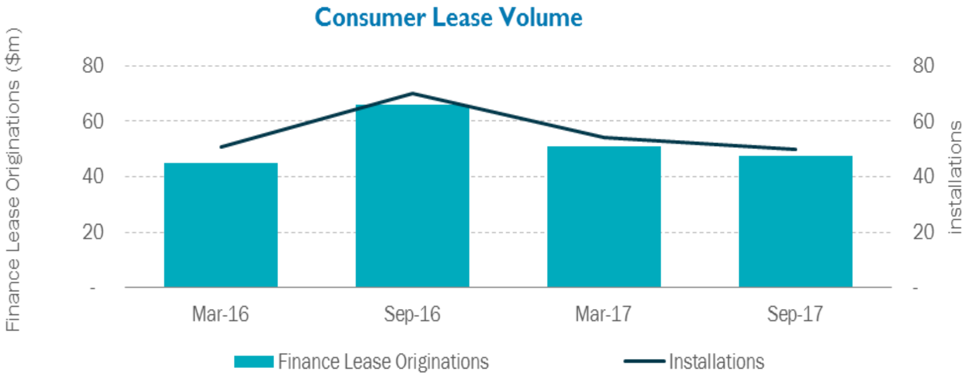
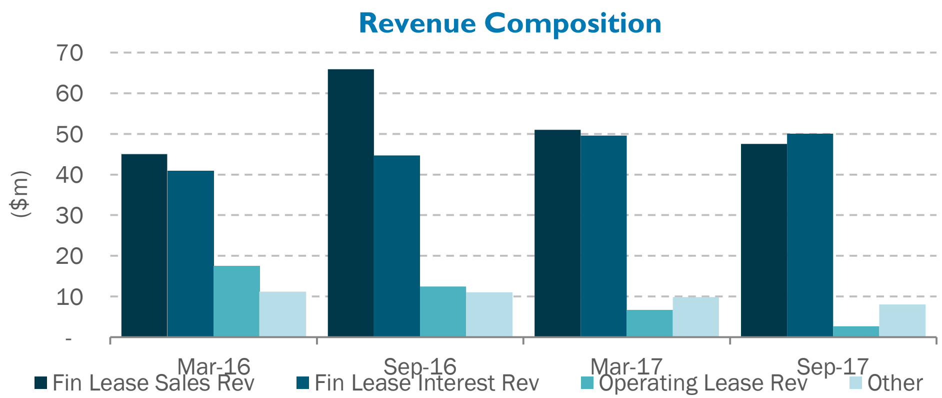
Consumer Leasing

	Sep-17	Mar-17	Sep–16	Sep-17 v Sep -16 % Change
Installations ('000)	**49.8**	52.3	67.0	(27%)
Average Unit Rate ($ per week)	**12.1**	11.7	11.7	4%
Revenue ($m)	**108.4**	117.2	134.0	(19%)
EBIT ($m)	**16.8**	15.4	20.9	(19%)
Receivables ($m)	**175.3**	172.8	163.3	7%
Total no. of stores	**80**	85	90	(11%)

- 80 years of history, 98,700 loyal customers
- Revenue and EBIT down 19% due to retail weakness, delay in returning customers, adverse publicity, and operational changes
- Lower prices and cost savings
- All stores and online now on the Streamline automated application and credit assessment system
- Further stores relocated into high footfall shopping centre locations





Notes:

1. Installations excludes short term operating leases contracts
2. Finance lease originations
3. Receivables on a net basis, exclusive of unearned interest and net of provisioning

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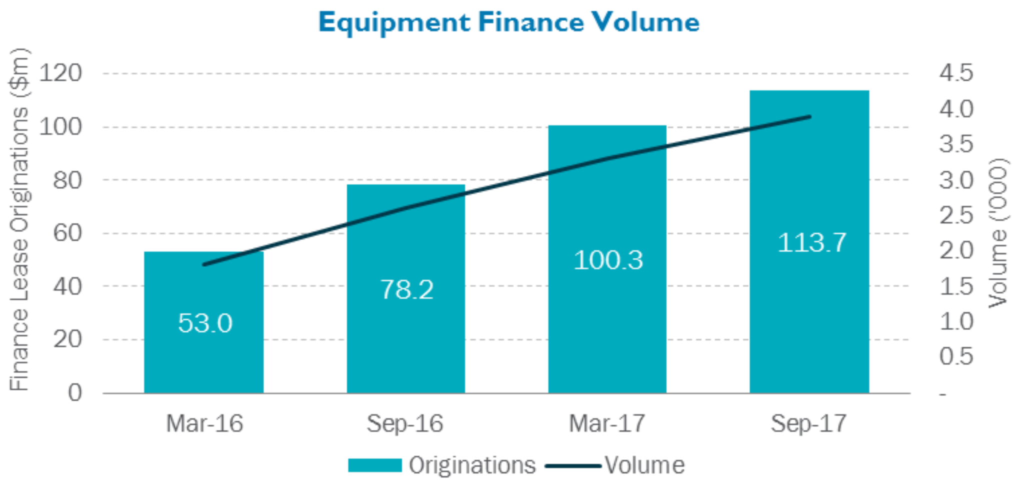
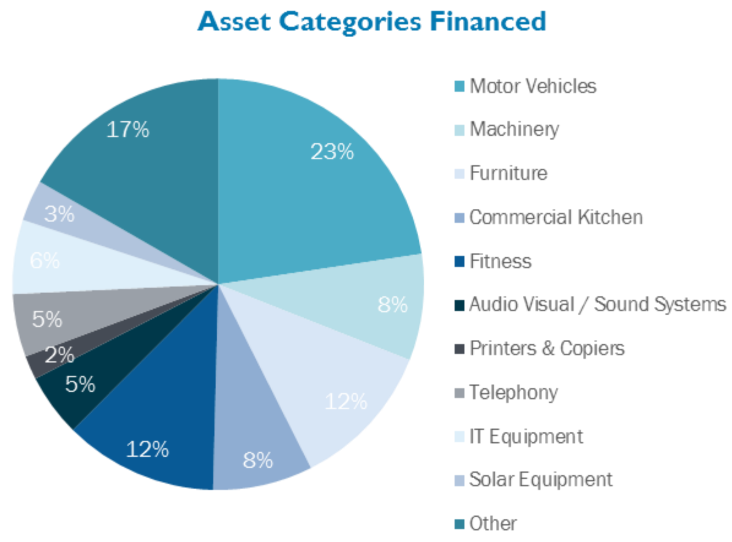
Equipment Finance

	Sep-17	Mar-17	Sep-16	Sep-17 v Sep-16 % Change
Revenue ($m)	**18.3**	15.0	11.4	60%
EBIT ($m)	**9.8**	9.5	6.6	49%
Originations ($m)	**113.7**	100.3	78.2	45%
Receivables ($m)	**295.5**	239.3	182.1	62%

- Continued strong growth driven by relationships with Brokers and Strategic Partners
- Positive contribution from focus on franchise segment under "Cashflow IT" partnership
- Diverse customer base; arrears and losses controlled
- Low asset type concentration





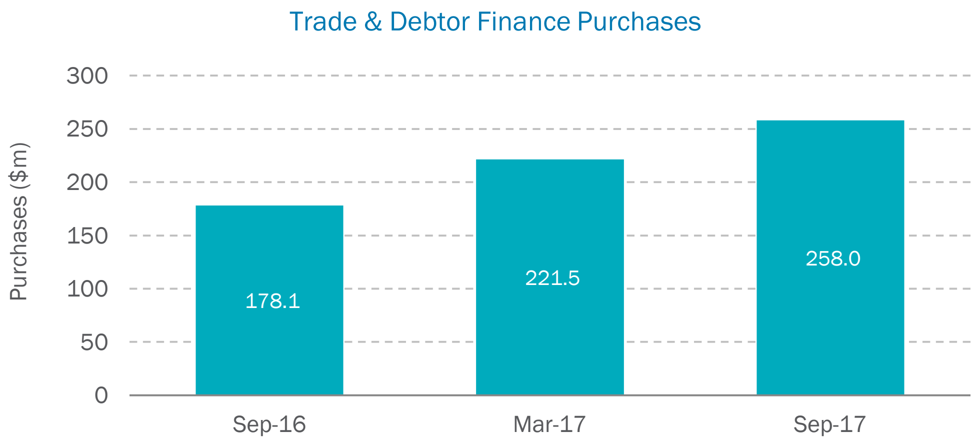
Notes:

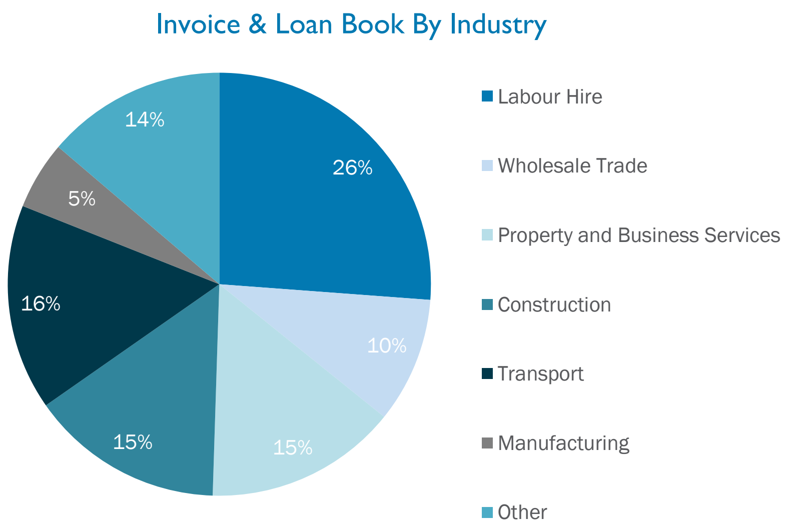
1. Receivables on a net basis, exclusive of unearned interest and net of provisioning

Trade & Debtor Finance

	Sep-17	Mar-17	Sep-16	Sep-17 v Sep-16 % Change
Revenue ($m)	**5.7**	5.4	5.8	(1%)
EBIT ($m)	**1.4**	0.6	1.7	(15%)
Purchases ($m)	**258.0**	221.5	178.1	45%
Invoices & Loan Book ($m)[1]	**37.6**	38.4	37.0	2%

- Stable book as new customers replace managed out clients
- Focused on sustainable growth and diversity through aligned SME product offerings
- More competitive pricing
- Growing purchases





Notes:

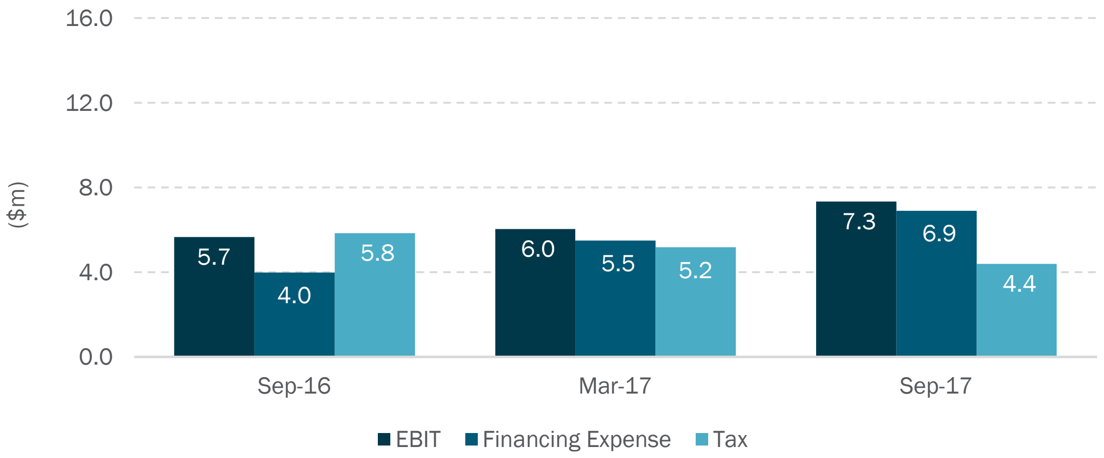
1. Receivables on a net basis, exclusive of unearned interest and net of provisioning

Corporate, Interest & Tax

	Sep-17	Mar-17	Sep-16	Sep-17 v Sep-16 % Change
Operating Expenses ($m)	**(7.3)**	(6.0)	(5.7)	(28.8%)
Goodwill Impairment ($m)	**(20.7)**	-	-	N/A
Financing Expense ($m)	**(6.9)**	(5.5)	(4.0)	(73.2%)
Tax ($m) [1]	**(4.4)**	(5.2)	(5.8)	25.0%

- Corporate expenses up due to legal and risk activities
- Goodwill written off to nil
- Increased finance expense due to significant growth in receivables and uptick in credit spreads and fees for extending the facilities and term
- Tax expense continues around 31% of pre tax profit (excluding goodwill write-off which is non deductible)

Corporate Expenses (excl. Goodwill Impairment)



Notes:

1. Total tax for the group (including tax on discontinued operations)

Regulatory Matters - Radio Rentals

ASIC investigation

- Regulatory matters nearing resolution
- Provision taken last year for penalty and remediation

Proposed consumer leasing legislation

- Agree with intent of the legislation
- Recommend legislation be amended to it allow customers the right to acquire goods at the end of a consumer lease if they have paid their lease obligations
- Protected earnings cap at 10% seems tight for some customers (pushes them into longer leases or towards SACCs) and a combined 20% cap with SACCs presents a superior customer outcome in our view
- Radio Rentals pricing is already under the proposed price caps

Class action

- Launched 29 March 2017
- Will be vigorously defended and may take years to resolve
- No provision taken but significant legal and other costs being expended

Outlook

- Outlook for the company's operations continues to be subdued
- Radio Rentals is making progress with its operational restructuring, new online application and approval system, and improved risk systems but still faces significant headwinds
- Business Finance is expected to maintain its strong market position with growth in the receivables book underpinning future earnings
- Corporate actions and alternative financing arrangements program underway
- Full year cash profit guidance at $17m to $20m (pre goodwill write-off $-20.7m)

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