Thorn Group Limited

ABN 54 072 507 147

2019 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 2018 to 30 September 2018
Previous corresponding period: 1 April 2017 to 30 September 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Six months ended	30 Sep 2018 $'000s	30 Sep 2017 $'000s	% Change
Revenue from ordinary activities – Continuing operations	111,587	125,263*	Down 10.9%
Profit/(loss) from continuing operations, net of tax	2,497	(12,249)	-
Profit from discontinued operations, net of tax	1,335	2,579*	Down 48.2%
Statutory profit/(loss) after tax	3,832	(9,670)	-

*Restated to redirect the results of discontinued business into discontinued items net of tax and to adjust certain line items to enable comparison with 30 September 2018 disclosures

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 2018.

This information should be read in conjunction with the 2018 Annual Financial Report of Thorn Group Limited.

DIVIDENDS	Amount per ordinary share	Franked amount per ordinary share
2018 final dividend	Nil	Nil
2019 interim dividend (resolved, not yet provided at 30 September 2018)	Nil	Nil

NET TANGIBLE ASSETS	30 Sept 2018	30 Sept 2017
Net tangible assets per ordinary share	118 cents	122 cents

THORN GROUP LTD

Condensed Consolidated Financial Statements

For the six months ended 30 September 2018

ABN 54 072 507 147

CONTENTS

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 2018 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

Mr David Foster (Chairman)
Ms Belinda Gibson
Mr Stephen Kulmar
Mr Andrew Stevens
Ms Joycelyn Morton (resigned 31 May 2018)

Executive

Mr Tim Luce (Managing Director and CEO)

OPERATING AND FINANCIAL REVIEW

Thorn is a diversified financial services group providing financial solutions to consumers and businesses. Business activities are the leasing of household products to consumers and the provision of leasing and other financial services to small and medium enterprises. There were no significant changes in the nature of the activities of the consolidated entity during the period.

Financial performance

Revenue from continuing operations fell 10.9% on the previous corresponding period from $125.3m to $111.6m. Profit after tax ("NPAT") rose from a $9.7m loss to a $3.8m profit. Once the goodwill impairment in the comparative half year is excluded NPAT fell from $11.0m to $3.8m.

The fall in profit is due mostly to the challenges faced by the Group's consumer leasing division and the sale of discontinued business units to meet bank mandated reductions in the corporate loan facility.

$m	Segment revenue		Segment EBIT* to NPAT	
Half year ended 30 September^	**2018**	**2017**	**2018**	**2017**
Consumer Leasing	90.1	108.4	5.4	16.8
Business Finance	21.5	16.9	13.5	9.8
Corporate	-	-	(8.0)	(7.3)
Goodwill impairment	-	-	-	(20.7)
Sub-total	**111.6**	**125.3**	**10.9**	**(1.4)**
Net interest expense			(7.3)	(6.9)
Profit before tax			3.6	(8.3)
Tax expense			(1.1)	(4.0)
Profit / (Loss) after tax from continuing operations			**2.5**	**(12.3)**
Profit from discontinued businesses after tax			1.3	2.6
Profit / (Loss) after tax			**3.8**	**(9.7)**

*Earnings before interest and tax

Consumer Leasing

The difficulties which have faced the Consumer Leasing division (trading as Radio Rentals) have been covered extensively in prior reports and announcements. The principal impact on the financials has been a marked reduction in installation volumes over the past two years and consequently reductions in both revenue and profit.

Management have responded to these challenges with a coordinated program of marketing and promotional changes, range extension, store refurbishments and upgrades, system changes, and efficiency improvements at both supplier and staff level including a further reduction in personnel during September 2018.

The customer focused initiatives have resulted in an increase in enquiries leading to an installation volume for the half year of 42,610 units. This compares to 32,570 units for September 2017 to March 2018 half year and 49,818 units for the prior corresponding period ("pcp" of April 2017 to September 2017).

With volumes down 14.4% against pcp, revenue also fell 16.9% to $90.1m (pcp: $108.4m). 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. The receivables book (net of the bad debt provision and now presented under AASB 9) fell $12.6m during the half year since March as a large cohort of customers came to the end of their four year contract and were not fully replaced due to the lower installation volumes.

Costs were reduced during the period but could not offset the $18.3m reduction in revenue and consequently EBIT fell from $16.8m to $5.4m.

Business Finance

The TBF division originated $84.6m in the half year compared to $113.7m in the pcp. The reduction in the pace of growth was due to the requirement to restrict outlays due to the tight debt funding in the period. This was resolved on 10 August 2018 with the introduction of the mezzanine investor into the warehouse and the increase in facility limits. The receivables book grew to $333.2m (net of the bad debt provision and now presented under AASB 9) from $326.1m at 31 March 2018 and $295.9m at 30 September 2017.

Revenue growth follows book growth so revenue increased $4.6m to $21.5m (pcp: $16.9m). With costs rising only modestly this revenue increase translated to a rise in EBIT of $3.7m to $13.5 m (pcp: $9.8m).

Corporate

Corporate expenses of $8.0m were up $0.7m from pcp with continued elevated legal fees for the class action and regulatory matters and higher insurance costs. These increases were partially offset by cost savings including personnel reductions.

Interest expense

Net borrowing costs increased by 6% to $7.3m (pcp: $6.9m) as while the volume of borrowing reduced, the cost of that borrowing increased.

Discontinued operations

The Company sold several of its subsidiary businesses over the past two years to meet a requirement to reduce its bank debt. These sales gave rise to transactional profits and losses along with operational results which are recorded in this line in the profit and loss account. During this half year there was a finalisation of outstanding matters on one of those sales resulting in a profit of $1.3m.

Earnings per share and dividend

Earnings per share for the continuing operations for the period was 1.6 cents compared to a loss of (7.7) cents for the prior corresponding period. Total earnings per share was 2.4 cents (pcp: loss of (6.1) cents).

The directors considered the results for the period and the Company's cash position and resolved not to declare an interim dividend.

Financial position

The balance sheet is presented below in two versions; first excluding the securitised warehouse trust borrowings for the business finance receivables together with those associated receivables (non-recourse funding for the warehouse), and second including the securitised warehouse trust which is as per the statutory accounts format.

Summarised financial position	30 September 2018		31 March 2018		30 September 2017	
$m	excl. Trust	incl. Trust	excl. Trust	incl. Trust	excl. Trust	incl. Trust
Cash at bank	25.8	25.8	28.2	28.2	16.1	16.1
Receivables	171.9	483.7	187.9	489.9	280.6	519.6
Investment in unrated notes	24.3	-	58.7	-	43.6	-
Rental assets, prepayments and other assets	26.8	26.8	21.6	21.6	32.1	32.1
Assets held for sale	-	-	-	-	13.3	13.3
Intangible assets	5.9	5.9	5.7	5.7	3.6	3.6
Total Assets	**254.7**	**542.2**	**302.3**	**545.6**	**389.3**	**584.6**
Borrowings	15.0	302.5	41.0	284.3	133.5	328.8
Other liabilities	44.7	44.7	58.4	58.4	57.8	57.8
Total Liabilities	**59.7**	**347.2**	**99.4**	**342.7**	**191.3**	**386.6**
Total Equity	**195.0**	**195.0**	**202.9**	**202.9**	**198.0**	**198.0**
Gearing (net debt/equity) (i)	5.8%	153.3%	16.1%	135.9%	64.1%	162.7%
Return on Equity (ii)		3.9%		6.1%		(9.5%)

(i) Gearing is calculated as net debt less free cash divided by closing equity
(ii) ROE is calculated as NPAT divided by average of opening and closing equity and annualised.

Cash at bank
The cash amount includes the free cash available to the Group for its usual working capital balance plus the tied cash held within the securitised warehouse special purpose vehicle and hence not available to the Group. At 30 September 2018, free cash was $3.6m and tied cash $22.1m.

Receivables
From 1 April 2018, the Group adopted AASB 9 *Financial Instruments.* AASB 9 introduces a new expected credit loss model resulting in a significant change to the way the provisions for trade and other receivables are calculated. This resulted in a $17.2m increase to the opening provision for trade and other receivables with Consumer Leasing up $6.9m and Business Finance up $10.4m. This additional provision reduced the opening balance of trade and other receivables at 1 April 2018 from $489.9m to $472.7m. From that revised starting position, as at 30 September 2018, receivables increased by $11.0m from 31 March 2018 to $483.7m.

Unrated notes
This balance represents the equity notes held by the Group in the securitised warehouse. It has decreased since 31 March 2018 due to the introduction of a mezzanine investor into the warehouse who purchased 60% of the Group's notes as part of that transaction, the proceeds of which were then used to reduce the corporate loan facility with the bank.

Rental assets, prepayments and other assets
This section includes the rental assets in the stores and warehouses and out on short term operating leases with customers, prepayments of items such as insurance and rent, deferred borrowing costs and deferred customer acquisition costs. The balance of deferred customer acquisition costs rose by $2.9m during the period since 31 March 2018 as additional discounts and gift cards were used to attract customers.

Borrowings
Borrowings increased $18.2m to $302.5m (31 March 2018: $284.3m). This balance comprises the securitised warehouse facility whose drawn balance increased by $44.2m from 31 March 2018 to $287.5m and the corporate loan facility which was reduced by $26.0m from 31 March 2018 to $15.0m at the half year end.

Funding

The Group had the following debt facility limits on the following dates:

$m	30 September 2018	31 March 2018
Secured Corporate Loan Facilities A and B	50.0	70.0
Securitised Warehouse Facility	368.0	250.0
Total loan facilities	**418.0**	**320.0**

The corporate loan facility balance was $15.0m at 30 September 2018 and the Group also had $2.3m of bank guarantees on issue. On 9 November 2018 Thorn and its bank signed a revised corporate loan facility agreement which reduced the available limit to $30.0m. The amount of undrawn capacity at 30 September 2018 was therefore revised on 9 November to $12.7m.

The securitised warehouse facility was drawn to $287.5m. This left $80.5m as undrawn capacity and can be accessed providing the lease and loan receivables to be sold into the warehouse meet the warehouse eligibility criteria and all other terms and conditions of that facility remain met.

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 lease and loan receivables into until the next annual review date of 10 August 2019.

RISKS

The major risks faced by the Group are outlined below.

Credit risk as the majority of its assets (around 90%) are monies owing from individual consumers and small and medium businesses.

Regulatory and legal risk in relation to changes of law, regulation, or regulatory oversight is heightened due to the Federal Government's consideration of proposed new consumer leasing legislation, ASIC's implementation of an Enforceable Undertaking into the responsible lending conduct of Radio Rentals, and the class action proceeding against one of the Company's subsidiaries.

Liquidity and refinancing risk as the Group has and continues to face pressure on its funding capacity plus tight covenants, terms and conditions contained in the facility documentation.

Operational and compliance risk has been a focus with the roll out of the new online origination and credit assessment platform and related processes, and the implementation of new technology in the credit and operational process. Thorn is progressing a program focused on culture and conduct.

The Group is subject to interest rate risk in that it borrows short (90 day bank bills) to lend long (fixed rate contracts out to a maximum of 5 years). To mitigate this risk, the Group hedges between 92% and 100% of the interest rate risk in the securitised warehouse facility (but not the smaller corporate facility with its more variable balance).

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

REGULATORY MATTERS

Thorn's consumer leasing division is continuing to operate under the Enforceable Undertaking ("EU") imposed upon it, has paid the civil penalty, and is presently remediating affected customers as required by the EU.

SUBSEQUENT EVENTS

On 9 November 2018, the Company entered into a revised corporate loan agreement with its bank. This facility is for a two year duration and provides a facility limit of $30m (down from the previous $50m) together with a new suite of covenants, terms and conditions.

OUTLOOK

The outlook for the Group remains challenging.

The difficulties facing the Consumer Leasing division will, as previously stated, take time to resolve. Trading conditions remain tight and consumers face pressure on their disposable income.

Business Finance is no longer constrained by credit availability after the implementation of the new securitised warehouse facility. The division will now concentrate on carefully rebuilding the pace of originations while maintaining credit quality.

With the introduction of AASB 9, both divisions will also experience higher loss provision coverage rates and a more volatile provisioning environment. Arrears are also increasing in softening economic conditions. The Group also continues to expend management time and legal fees to defend the class action and run the enforceable undertaking.

The net profit after tax for the full year is now expected to be between \$6m and \$8m (down from previous guidance of \$7m to \$10m).

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration as required by section 307C of the Corporations Act 2001 is included on page 7.

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, 21 November 2018.

Signed in accordance with a resolution of the directors.

David Foster
Chairman

Auditor’s Independence Declaration

As lead auditor for the review of Thorn Group Limited for the half-year ended 30 September 2018, I declare that to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Thorn Group Limited and the entities it controlled during the period.

M. Laithwaite

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
21 November 2018

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

$'000 AUD	Notes	30 September 2018	30 September 2017*
Continuing operations			
Revenue		111,587	125,263
Finance lease cost of sales		(29,642)	(33,393)
Employee benefit expense		(28,509)	(27,341)
Impairment losses on loans and receivables		(13,024)	(11,003)
Marketing expenses		(5,165)	(6,998)
Property expenses		(5,354)	(5,306)
Transport expenses		(2,850)	(2,934)
Communication & IT expenses		(3,200)	(2,976)
Printing, stationary and postage		(1,103)	(1,199)
Travel expenses		(510)	(1,038)
Other expenses		(7,275)	(8,937)
Depreciation & amortisation		(4,054)	(4,879)
Impairment of intangibles		-	(20,658)
Total operating expenses		**(100,686)**	**(126,662)**
Earnings before interest and tax ("EBIT")		10,901	(1,399)
Finance expenses		(7,312)	(6,900)
Profit/(Loss) before income tax		**3,589**	**(8,299)**
Income tax		(1,092)	(3,950)
Profit/(Loss) after tax from continuing operations		**2,497**	**(12,249)**
Discontinued operations			
Profit from discontinued operations, net of tax	13	1,335	2,579
Profit/(Loss) after tax		**3,832**	**(9,670)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Movement in fair value of cash flow hedges		(789)	266
Income tax		236	(80)
Other comprehensive income for the year		**(553)**	**186**
Total comprehensive income/(loss)		**3,279**	**(9,484)**
Earnings per share– continuing operations			
Basic earnings per share (cents)		1.6	(7.7)
Diluted earnings per share (cents)		1.5	(7.7)
Earnings per share			
Basic earnings per share (cents)		2.4	(6.1)
Diluted earnings per share (cents)		2.4	(6.1)

*Restated to redirect the results of discontinued business into one line above Profit/(Loss) after tax and to adjust certain line items to enable comparison with 30 September 2018 disclosures. For further details see notes 3 and 13.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

$'000 AUD	Note	30 September 2018	31 March 2018*
Assets			
Cash and cash equivalents		25,761	28,227
Trade and other receivables	7	174,150	169,891
Prepayments and other assets		12,782	8,539
Total current assets		**212,693**	**206,657**
Trade and other receivables	7	309,588	319,941
Prepayments and other assets		4,300	2,799
Property, plant and equipment		3,825	3,463
Rental assets		5,817	6,979
Intangible assets	8	5,905	5,702
Total non-current assets		**329,435**	**338,884**
Total assets		**542,127**	**545,541**
Liabilities			
Trade payables		13,792	10,377
Income tax payable		3,573	3,099
Other payables		15,367	19,758
Loans and borrowings	9	96,546	77,348
Employee benefits		5,416	5,050
Provisions		3,203	7,459
Total current liabilities		**137,897**	**123,091**
Loans and borrowings	9	205,977	206,960
Deferred tax liabilities		1,028	11,102
Employee benefits		508	481
Derivative financial instruments	10	1,331	542
Provisions		435	487
Total non-current liabilities		**209,279**	**219,572**
Total liabilities		**347,176**	**342,663**
Net assets		**194,951**	**202,878**
Equity			
Issued capital		119,951	119,951
Reserves		494	181
Retained earnings		74,506	82,746
Total equity		**194,951**	**202,878**

* Restated to adjust certain line items to enable comparison with 30 September 2018 disclosures. For further details see note 3.

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 2018

$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2017	118,189	130	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 shares 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	**119,470**	**272**	**78,293**	**198,035**

$'000 AUD	Note	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2018		119,951	181	82,746	202,878
Adjustment on initial application of AASB 9 (net of tax)	3(a)	-	-	(12,072)	(12,072)
Restated total equity at 1 April 2018		119,951	181	70,674	190,806
Total comprehensive income					
Net profit for the period		-	-	3,832	3,832
Other comprehensive income		-	(553)	-	(553)
Total comprehensive income		**-**	**(553)**	**3,832**	**3,279**
Transactions with owners of the company					
Issue of shares under dividend reinvestment plan		-	-	-	-
Share based payments transactions		-	866	-	866
Dividends to shareholders		-	-	-	-
Total transactions with owners of the company		**-**	**866**	**-**	**866**
Balance at 30 September 2018		**119,951**	**494**	**74,506**	**194,951**

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 2018

$'000 AUD	30 September 2018	30 September 2017
Cash flows from operating activities		
Cash receipts from customers	184,636	423,005
Cash paid to suppliers and employees	(75,717)	(314,496)
Acquisition of rental assets	(29,023)	(33,216)
Equipment finance originations	(86,611)	(113,746)
Cash generated from operations	**(6,715)**	**(38,453)**
Net borrowing costs	(7,312)	(6,900)
Income tax paid	(4,505)	(663)
Net cash from operating activities	**(18,532)**	**(46,016)**
Cash flows from investing activities		
Acquisition of property, plant and equipment and software	(2,149)	(2,195)
Net cash used in investing activities	**(2,149)**	**(2,195)**
Cash flows from financing activities		
Proceeds from borrowings	108,903	89,654
Repayment of borrowings	(90,688)	(37,341)
Net dividends paid	-	(2,675)
Net cash from financing activities	**18,215**	**49,638**
Net increase in cash and cash equivalents	(2,466)	1,427
Cash and cash equivalents at 1 April	28,227	14,681
Cash and cash equivalents at 30 September	**25,761**	**16,108**

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 2018 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 2018 are on the Company's website www.thorn.com.au.

2. 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 for the year ended 31 March 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors on 21 November 2018.

3. 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 2018 except for the adoption of new accounting standards that became applicable during the period.

3(a) NEW ACCOUNTING STANDARDS ADOPTED

A number of new or amended standards became applicable for the current reporting period and the Group has had to change its accounting policies and make retrospective adjustments in the Group's financial statements as a result of adopting AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers*, which was adopted from 1 April 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, and IFRIC 13 Customer Loyalty Programmes. AASB 15 was adopted without restating comparative information. The impact of this new standard is not material on the quantum or timing of revenue recognition.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The adoption of AASB 9 from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The classification and measurement, and impairment requirements have been applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

Impairment of financial assets

The Group has one type of asset that is subject to AASB 9's new expected credit loss model, being trade and other receivables which consists of trade, lease and loan receivables.

Under AASB 9, a three-stage approach is applied to measuring expected credit losses ('ECL') based on credit migration between the stages as follows:

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

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

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

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

Classification and measurement

There are three measurement classifications under AASB 9: Amortised cost, fair value through profit or loss ('FVTPL') and, for financial assets, fair value through other comprehensive income ('FVOCI'). Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics. Loans and receivables are measured at amortised cost, and are held with the objective of collecting the contractual cash flows on a specific date consisting of solely principal and interest. Similarly, under AASB 139, financial assets were classified as loans and receivables and measured at amortised cost.

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

General hedge accounting

AASB 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. AASB 9 provides an accounting policy choice to continue with AASB 139 *Hedge Accounting* given the International Accounting Standards Board's ongoing project on macro hedge accounting. The consolidated entity has chosen to continue to apply AASB 139. The fair value of the derivative financial instrument used for hedging purposes is disclosed in note 10.

Impact of adoption

As a result of the changes in the entity's accounting policies, the opening balance of the financial statements were restated for the adjustment for the impact of AASB 9 being the provision for trade and other receivables. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Impact on the Condensed Consolidated Statement of Financial Position

$'000 AUD	31 March 18 As originally presented	Impact of adopting AASB 9 on opening balance	1 April 18 Restated
Assets			
Trade and other receivables	169,891	(5,749)	164,142
Total current assets	**206,657**	**(5,749)**	**200,908**
Trade and other receivables	319,941	(11,497)	308,444
Total non-current assets	**338,884**	**(11,497)**	**327,387**
Liabilities			
Deferred tax liabilities	11,102	(5,174)	5,928
Total non-current liabilities	**219,572**	**(5,174)**	**214,398**
Net assets	**202,878**	**(12,072)**	**190,806**
Equity			
Retained earnings	82,746	(12,072)	70,674
Total equity	**202,878**	**(12,072)**	**190,806**

Impact on the Consolidated Statement of Changes in Equity

$'000 AUD	1 April 2018
Closing retained earnings 31 March 2018 – AASB 139	82,746
Increase in provision for trade and other receivables	(17,246)
Decrease in deferred tax liability	5,174
Adjustment to retained earnings from adoption of AASB 9 on 1 April 2018	**(12,072)**
Opening retained earnings after AASB 9 adoption on 1 April 2018	**70,674**
Opening total equity after AASB 9 adoption on 1 April 2018	**190,806**

Impact on Provision for Trade and Other Receivables

The provision for trade and other receivables as at 31 March 2018 reconciles to the opening provision for trade and other receivables on 1 April 2018 as follows:

$'000 AUD	Provision for trade and other receivables
At 31 March 2018 – calculated under AASB 139	(28,027)
Amount restated through opening retained earnings	(17,246)
Opening provision as at 1 April 2018	**(45,273)**

The provision for trade and other receivables decreased by $947,000 to $44,326,000 during the six months to 30 September 2018.

3(b) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

AASB 16 Leases

AASB 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective from 1 April 2019 and the consolidated entity is not early adopting this standard. The consolidated entity is still continuing with the assessment of AASB 16 as per the latest annual report.

3(c) RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION

During the period, the classification of transactions were re-reviewed and certain reclassifications were made to financial statement line items to enhance presentation. The comparative information in the statement of profit or loss and other comprehensive income, statement of financial position, segment note and statement of cash flow have been reclassified consistent with the presentation adopted in the 30 September 2018 financial statements. These reclassifications did not result in a change to the net assets or profit after tax balances in the comparative period disclosed.

- Software balances under development, worth $923,000, have been reclassified from property, plant and equipment to intangible assets. This change has been reflected in the comparative of the Statement of financial position and the note 8 Intangible assets.
- Payments arising from the strategic alliance with Cashflow IT of $609,000 has been reclassified from other expenses to revenue, as this better reflects the substance of the payments under the terms of the alliance. This change has been reflected in the comparative of the Statement of profit and loss and other comprehensive income and the note 6 Operating Segments.
- Costs of $799,000 incurred as part of customers changing the finance lease model their contract is under, have been reclassified from Impairment losses on loans and receivables to Revenue in the Statement of Profit and Loss and Other Comprehensive Income and note 6 Operating segments as these changes do not relate to impairment losses.
- Derivative financial instruments have been grossed up for tax with the tax impact of $163,000 recognised in deferred tax liabilities in the Statement of financial position. The derivative financial instruments has also been reclassified from other payables to its own caption, and to shifted to a non-current classification, reflecting the term of the underlying instrument.

- Thorn Business Finance customer accounts contain some credits which have been netted against the outstanding receivable to better reflect the net outstanding principal balance, resulting in a reduction of $3,065,000 to Trade and other receivables, and were previously disclosed in other payables. This has also impacted Note 6 operating segments.
- As disclosed in the 31 March 2018 annual financial statements, the Statement of Cash Flows has been amended to reclassify acquisition of rental assets and equipment finance originations from investing activities to operating activities. This has also been reflected in the comparative. Had this change not occurred the operating cash flow in 2018 would have been $97,102,000 and in 2017 $100,946,000. The investing cash flow in 2018 would have been $(99,251,000) and in 2017 $(103,141,000). The cash receipts from customers and cash paid to suppliers and employees have both been grossed up by $56,973,000.
- The segment note has been adjusted to place finance expenses and the balance of the securitised warehouse facility against Business Finance as they relate to that division. This has resulted in an interest expense of $4,205,000 and the facility liability balance of $243,308,000 being reallocated to Business Finance from Corporate.
- Past issues of shares totalling $2,849,000 have been reclassified from reserves to share capital in the Statement of Financial Position and the Statement of Changes in Equity.

4. 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 2018 except for the adoption of new accounting standards, namely AASB 9 *Financial Instruments*.

The provisions for trade and other receivables are based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5. FINANCIAL INSTRUMENTS

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

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 Business Finance division which provides financial products to small and medium enterprises including equipment leasing, and the Corporate division which holds corporate expenses for Thorn Group Limited. Segment performance is evaluated based on operating profit or loss. Interest and income tax expense are not fully allocated to operating segments as this type of activity is managed on a group basis.

Information about reportable segments for the period

30 September 2018 **$'000 AUD**	**Consumer Leasing**	**Business Finance**	**Corporate**	**Discontinued operations***	**Consolidated**
Segment revenue	90,114	21,473	-	-	111,587
Operating expenses	(81,699)	(7,946)	(6,987)	559	(96,073)
EBITDA	**8,415**	**13,527**	**(6,987)**	**559**	**15,514**
Depreciation and amortisation	(2,981)	(46)	(1,027)		(4,054)
Impairment			-	-	
EBIT	**5,434**	**13,481**	**(8,014)**	**559**	**11,460**
Finance expense	-	(6,594)	(718)	-	(7,312)
Profit/(loss) before tax	**5,434**	**6,887**	**(8,732)**	**559**	**4,148**
Segment assets	191,129	333,188	17,810	-	542,127
Segment liabilities	(44,653)	(287,523)	(15,000)	-	(347,176)

30 September 2017 ** $'000 AUD	Consumer Leasing	Business Finance	Corporate	Discontinued operations*	Consolidated
Segment revenue	108,355	16,908	-	8,814	134,077
Operating expenses	(87,642)	(7,027)	(6,457)	(5,065)	(106,191)
EBITDA	**20,713**	**9,881**	**(6,457)**	**3,749**	**27,886**
Depreciation and amortisation	(3,876)	(114)	(888)	(65)	(4,943)
Impairment			(20,658)		(20,658)
EBIT	**16,837**	**9,767**	**(28,003)**	**3,684**	**2,285**
Finance expense	-	(4,205)	(2,695)	-	(6,900)
Profit before tax	**16,837**	**5,562**	**(30,698)**	**3,684**	**(4,615)**
Segment assets	159,474	295,922	31,566	58,579	545,541
Segment liabilities	(13,015)	(243,308)	(85,468)	(872)	(342,663)

* See note 13 for further information regarding discontinued operations.

** See note 3(c) for further information regarding reclassification of comparative allocations.

Reconciliations of reportable segment to IFRS measures

$'000 AUD	30 September 2018	30 September 2017
Revenue		
Total revenue for reportable segments	111,587	134,077
Elimination of discontinued operations	-	(8,814)
Consolidated Revenue	**111,587**	**125,263**
Profit before tax		
Total profit / (loss) before tax for reportable segments	4,148	(4,615)
Elimination of discontinued operations	(559)	(3,684)
Consolidated profit / (loss) before tax from continuing operations	**3,589**	**(8,299)**

7. TRADE AND OTHER RECEIVABLES

$'000 AUD	30 September 2018	31 March 2018
Consumer leasing		
Trade receivables	5,958	6,750
Finance lease receivables	71,662	73,048
Gross book	77,620	79,798
Provision for doubtful debts	(14,785)	(13,007)
Current trade and other receivables - Consumer Leasing	**62,835**	**66,791**
Business Finance		
Trade receivables	4,553	2,918
Finance lease receivables	86,559	78,049
Loan receivables	27,344	24,002
Gross book	118,456	104,969
Provision for doubtful debts	(8,980)	(3,983)
Current trade and other receivables - Business Finance	**109,475**	**100,986**
Corporate		
Loan receivables	1,839	2,115
Total loan receivables	**1,839**	**2,115**
Total current trade and other receivables	**174,150**	**169,891**
Consumer leasing		
Finance lease receivables	96,402	101,903
Provision for doubtful debts	(11,874)	(8,729)
Non-current trade and other receivables - Consumer Leasing	**84,528**	**93,174**
Business Finance		
Finance lease receivables	176,719	173,807
Loan receivables	55,679	53,614
Gross book	232,398	227,422
Provision for doubtful debts	(8,686)	(2,307)
Non-current trade and other receivables – Business Finance	**223,712**	**225,114**
Corporate		
Loan receivables	1,348	1,653
Total loan receivables	**1,348**	**1,653**
Total non-current trade and other receivables	**309,588**	**319,941**
Total trade and other receivables	**483,738**	**489,832**

8. INTANGIBLE ASSETS

$'000 AUD	Goodwill	Software	Total
Year ended 31 March 2018			
Opening net carrying amount	20,658	3,664	24,322
Additions	-	3,301	3,301
Amortisation charges for the year		(1,263)	(1,263)
Impairment charges for the year	(20,658)	-	(20,658)
Closing net book amount	**-**	**5,702**	**5,702**
At 31 March 2018			
Cost	20,658	15,709	36,367
Amortisation and Impairment	(20,658)	(10,007)	(30,665)
Net book amount	**-**	**5,702**	**5,702**
Six months ended 30 September 2018			
Opening net carrying amount	-	5,702	5,702
Additions	-	1,069	1,069
Amortisation charges for the paid	-	(866)	(866)
Impairment charges for the paid	-	-	-
Closing net book amount	**-**	**5,905**	**5,905**
At 30 September 2018			
Cost	-	16,778	16,778
Amortisation and Impairment	-	(10,873)	(10,873)
Net book amount	**-**	**5,905**	**5,905**

Goodwill

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

During the year ended 31 March 2018, goodwill was assessed for impairment. As a result of this assessment, the goodwill balance was fully written down.

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 between 3 and 8 years.

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

9. LOANS AND BORROWINGS

$'000 AUD	30 September 2018	31 March 2018
Current liabilities		
Secured loans	96,546	77,348
Non- Current liabilities		
Secured loans	205,977	206,960
	302,523	**284,308**

$'000 AUD	30 September 2018	31 March 2018
Corporate loan facility limit	50,000	70,000
Utilised	(15,000)	(41,000)
Available headroom	**35,000**	**29,000**
Securitised warehouse facility limit	368,000	250,000
Utilised	(287,523)	(243,308)
Available headroom	**80,477**	**6,692**
Total loan facility limits	418,000	320,000
Utilised	(302,523)	(284,308)
Loan facilities not utilised at reporting date	**115,477**	**35,692**

The corporate loan facility balance was $15,000,000 at 30 September 2018 and was classified as non-current. The Group also had $2,200,000 of bank guarantees on issue which form part of the facility's available capacity. On 9 November 2018, Thorn and its bank signed a revised corporate loan facility agreement which reduced the available limit to $30,000,000 and changed covenants, terms and conditions. The amount of undrawn capacity was therefore revised on 9 November to $12,800,000.

The securitised warehouse facility was drawn to $287,523,000. This left $80,477,000 as undrawn capacity and available providing the lease and loan receivables to be sold into the warehouse meet the warehouse eligibility criteria and all other terms and conditions of that facility remain met.

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 lease and loan receivables into until the next annual review date of 10 August 2019.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The full fair value of a hedging derivative is classified as a non-current liability as the remaining maturity of the hedged item is more than 12 months from 30 September 2018.

The fair value of derivatives are classified as level 2 instruments as they are not traded in an active market and are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The interest rate swap creates a cash flow hedge against the variable interest payments on the securitised warehouse facility. This hedge is taken out so that interest rates committed to at the origination of a Business finance lease or loan contract are matched by fixing the base lease interest rate on the borrowings in the securitised warehouse. The movement in the fair value of the interest rate swap is recognised through Other Comprehensive Income and reserves in the Statement of Changes in Equity.

$'000 AUD	30 September 2018	31 March 2018
Interest rate swap liability	1,331	542

11. CAPITAL AND RESERVES

Dividends

	Six months ended 30 September 2018		
	Cents per share	**Total $'000s**	**Date paid / payable**
Recognised Amounts			
Final Dividend	-	-	n/a
Unrecognised Amounts			
Interim Dividend	-	-	n/a

	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

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

12. 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 2018 was based on profit attributable to ordinary shareholders of $3,832,000 (2017: $(9,670,000)) and a weighted average number of ordinary shares of 159,930,000 (2017: 158,664,000).

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 diluted earnings per share for the six months ended 30 September 2018 was based on profit attributable to ordinary shareholders of $3,832,000 (2017: $(9,670,000)) and a weighted average number of ordinary shares of 160,036,000 (2017: 158,664,000).

	30 September 2018	30 September 2017
Earnings per share		
Profit attributable to ordinary shareholders (basic) $'000 AUD		
Profit/(Loss) attributable to ordinary shareholders (basic and diluted) – continuing operations	2,497	(12,249)
Profit/(Loss) attributable to ordinary shareholders (basic and diluted)	3,832	(9,670)
Weighted average number of ordinary shares (basic) '000's		
Issued ordinary shares at 1 April	159,930	158,247
Effect of shares issued	106	417
Weighted average number of ordinary shares for the period	**160,036**	**158,664**
Weighted average number of ordinary shares (diluted) '000's		
Issued ordinary shares at 1 April	161,774	158,247
Effect of shares issued	-	417
Weighted average number of ordinary shares for the period	**161,774**	**158,664**
Earnings per share - continuing operations		
Basic earnings per share (cents)	1.6	(7.7)
Diluted earnings per share (cents)	1.5	(7.7)
Earnings per share		
Basic earnings per share (cents)	2.4	(6.1)
Diluted earnings per share (cents)	2.4	(6.1)

13. DISCONTINUED OPERATIONS

The Consumer Finance division was sold on 1 November 2017 and the Thorn Trade and Debtor Finance division was sold on 26 February 2018. During the period to 30 September 2018, a sale transaction and a tax matter were finalised resulting in the release of the relevant provisions.

Revenue and expenses of these divisions 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.

Result of discontinued operation

$'000 AUD	30 September 2018	30 September 2017
Revenue	-	8,814
Expenses	559	(5,130)
Results from operating activities	**559**	**3,684**
Income tax	776	(1,105)
Results from operating activities, net of tax	**1,335**	**2,579**
(Loss) on sale of discontinued operation	-	-
Income tax benefit on sale of discontinued operation	-	-
Profit from discontinued operations, net of tax	**1,335**	**2,579**

Cash flow (used in) discontinued operation

$'000 AUD	30 September 2018	30 September 2017
Net cash used in operating activities	-	252
Net cash from investing activities	-	-
Net cash from financing activities	-	(252)
Net cash flows for the year	**-**	**-**

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

15. SUBSEQUENT EVENTS

On 9 November 2018, the Company entered into a revised corporate loan agreement with its bank. This facility is for a two year duration and provides a facility limit of $30,000,000 (down from the previous $50,000,000) together with a new suite of covenants, terms and conditions.

DIRECTOR’S DECLARATION

For the six months ended 30 September 2018

Directors’ Declaration

In the opinion of the directors of Thorn Group Limited:

1. the financial statements and notes set out on pages 8 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 2018 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.

David Foster
Chairman

Dated at Sydney, on 21 November 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Thorn Group Limited (the Company), which comprises the Condensed Consolidated Statement of Financial Position as at 30 September 2018, the Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flow and Condensed Consolidated Profit or Loss and Other Comprehensive Income for the half-year ended on that date, selected other explanatory notes and the Directors' Declaration for Thorn Group Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the 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 a half-year 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.

Independence

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 30 September 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Marcus Laithwaite
Partner

Sydney
21 November 2018