Thorn Group Limited
and its Controlled Entities
ACN 072 507 147

Condensed consolidated interim financial report
30 September 2013

The directors present their report together with the condensed consolidated interim financial report for the six months ended 30 September 2013 and the review report thereon.

Directors

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

Name	**Period of directorship**
Non-executive	
Mr David Carter (Chairperson)	Director since 3 November 2006
Mr Peter Henley	Director since 21 May 2007
Ms Joycelyn Morton	Director since 1 October 2011
Mr Paul Lahiff	Director since 21 May 2007 (retired: 23 August 2013)
Executive	
Mr John Hughes (Managing Director and CEO)	Director since 3 November 2006

Operating and Financial Review

Overview of the Group

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

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

Financial Performance

Despite continued uncertain economic conditions, revenue for the first half of the 2014 financial year increased by 12% on the previous corresponding period ("PCP"), growing from $100,460,000 to $112,707,000.

Revenue for the Consumer Leasing segment grew 10.4%, from $85,002,000 to $93,867,000. Operating lease revenue grew, primarily attributable to increased units on rent, most notably in the furniture category. The growth in finance lease revenue was driven by increased smartphone installations. The change in mix impacted gross margin for the first half as a lower margin on sale for smartphones is realised.

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

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

Operating and Financial Review (continued)

Despite a significant increase in segment revenue, reported segment earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased by 5.6% from $24,611,000 to $23,243,000.

One off factors impacted the underlying performance of the segment versus PCP. The table below shows the favourable impact of a large non-recurring debt sale in the PCP and the loss pertaining to the start-up costs associated with Rent Drive Buy, nil incurred in the PCP. Underlying EBITDA declined 1%.

In thousands of AUD	**30 September 2013**	**30 September 2012**
Consumer Leasing reported EBITDA	23,243	24,611
Debt sale	-	(850)
Rent Drive Buy start-up costs	300	-
Consumer Leasing underlying EBITDA	**23,543**	**23,761**

A restructure of the Credit Management segment commenced in the second half of the 2013 financial year. This restructure, in addition to improved operational performance resulted in a revenue increase of 17.2%, from $9,048,000 to $10,600,000. The uplift was driven by increased contingent collection and PDL revenue. Segment EBITDA increased by 23.1% from $1,592,000 to $1,959,000.

One off factors impacted the underlying performance of the segment versus PCP. The table below shows the favourable impact of a large non-recurring debt sale in the PCP. Underlying EBITDA grew 64.3%.

In thousands of AUD	**30 September 2013**	**30 September 2012**
Credit Management reported EBITDA	1,959	1,592
Debt sale	-	(400)
Credit Management Underlying EBITDA	1,959	1,192

Revenue for Thorn Equipment Finance ("TEF") grew by 51.6% from $2,599,000 to $3,939,000. The revenue increase is attributable to the growth in receivables, which increased to $55,496,000 versus $36,124,000 in the PCP. Expenses were in line with PCP, resulting in segment EBITDA increasing by 282% from $406,000 to $1,552,000.

Thorn Financial Services ("TFS") revenue increased by 14.5% from $3,706,000 to $4,245,000. The interest revenue increase was attributable to growth in receivables, from $19,947,000 to $22,236,000. Bad debts increased slightly as a percentage of the receivables, whilst overheads were higher than PCP as a result of business development initiatives which saw the addition of key personnel. Consequently, segment EBITDA decreased by 12.3% from $576,000 to $505,000.

Corporate expenses were up 10% from $4,647,000 to $5,112,000 as general expenses increased in line with business growth and IT expenses relating to the implementation of the Radio Rentals ERP pilot were incurred. Finance expenses increased by 70.1% due to higher borrowings compared to the PCP. Borrowings as at 30 September 2012 were $22,000,000 versus $32,900,000 as at 30 September 2013.

As a result, consolidated profit before income tax decreased by 4.3% from $20,295,000 to $19,427,000. Net profit after tax decreased by 5.0% from $14,007,000 to $13,305,000.

Operating and Financial Review (continued)

One off factors impacted the underlying performance of the consolidated entity versus PCP. The table below shows the favourable impact of a large non-recurring debt sale in the PCP and the loss pertaining to the start-up costs associated with Rent Drive Buy, nil incurred in the PCP. Underlying NPAT increased 2.9%.

In thousands of AUD	**30 September 2013**	**30 September 2012**
Reported NPAT	13,305	14,007
Debt sale	-	(1,250)
Rent Drive Buy start-up costs	300	-
Tax effect	(90)	375
Underlying NPAT	**13,515**	**13,132**

Financial Position

The key assets of the consolidated entity grew during the period. Rental assets were up by 13.2% to $59,910,000, attributable to increased operating lease installations, particularly in the furniture category.

The consumer lease receivables book grew by 11% to $106,327,000 due to increased installations of smartphones and solid flat panel TV installations. Commercial lease receivables grew by 20% to $55,496,000 through the continued development of strategic partnerships with brokers and introducers. The consumer finance book grew 2% to $22,236,000.

Capital Management

Net cash from operating activities increased from $49,955,000 to $58,232,000. This was primarily attributable to increased receipts from customers in all segments and the timing of creditors payments.

Borrowings increased to $32,900,000. Net debt to equity remained relatively low at 18.2%. The consolidated entity continues to meet all debt covenants.

Funding on the $50,000,000 securitisation facility was delayed, in line with the requirements of TEF. Funding on this facility is expected to commence in November 2013.

Dividends

The company paid a fully franked final dividend of 6 cents per share on 18 July 2013. The company paid $6,542,000 in cash and issued 1,184,356 new ordinary shares at $1.96 per share (a discount of 2.5%) under the Dividend Reinvestment Plan (DRP).

The company has declared an interim dividend of 4.5 cents per share, in line with PCP.

Risks

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

Operating and Financial Review (continued)

Legislative changes

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

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

Strategic Initiatives

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

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

Outlook

Despite soft economic conditions, the consolidated entity is trading solidly. The continued investments in new business opportunities will limit growth in the 2014 financial year however are expected to benefit the returns to shareholders in the medium to longer term.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the six months ended 30 September 2013.

Rounding off

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

Dated at Sydney this 19th day of November 2013.

Signed in accordance with a resolution of the directors:

David Carter
Chairman

John Hughes
Managing Director

KPMG

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 for the interim period ended 30 September 2013 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

19 November 2013

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2013

In thousands of AUD	*Note*	**30 September 2013**	**30 September 2012**
Revenue		**112,707**	**100,460**
Employee benefit expense		(24,629)	(20,816)
Depreciation & amortisation expense		(18,127)	(15,676)
Finance lease cost of sales		(16,837)	(13,416)
Marketing expenses		(6,218)	(6,407)
Impairment losses on loans and receivables		(6,880)	(4,896)
Property expenses		(4,693)	(4,409)
Transport expenses		(3,346)	(3,120)
Communication & IT expenses		(2,257)	(1,789)
Travel expenses		(681)	(766)
Finance expenses		(944)	(553)
Other expenses		(8,668)	(8,317)
Profit before income tax		**19,427**	**20,295**
Income tax expense		(6,122)	(6,288)
Profit for the period		**13,305**	**14,007**
Other comprehensive income		**-**	**-**
Total comprehensive income		**13,305**	**14,007**
Basic earnings per share (cents)	*10*	8.98	9.57
Diluted earnings per share(cents)	*10*	8.93	9.55

Condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 11 to 15.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2013

In thousands of AUD	Share Captial	Equity Remuneration Reverse	Retained Earnings	Total Equity
Balance at 1 April 2012	93,898	2,557	43,756	140,211
Total comprehensive income				
Net profit for the period	-	-	14,007	14,007
Other comprehensive income	-	-	-	-
Transactions with owners of the company recognised directly in equity				
Issue of ordinary shares	-	-	-	-
Share based payments transactions	-	47	-	47
Dividends to shareholders	-	-	(8,051)	(8,051)
Balance at 30 September 2012	93,898	2,604	49,712	146,214
Balance at 1 April 2013	95,483	2,769	57,121	155,373
Total comprehensive income				
Net profit for the period	-	-	13,305	13,305
Other comprehensive income	-	-	-	-
Transactions with owners of the company recognised directly in equity				
Issue of shares under dividend reinvestment plan	2,321	-	-	2,321
Share based payments transactions	-	217	-	217
Dividends to shareholders	-	-	(8,863)	(8,863)
Balance at 30 September 2013	97,804	2,986	61,563	162,353

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 11 to 15.

In thousands of AUD	Note	**30 September 2013**	**31 March 2013**
Assets			
Cash and cash equivalents		3,310	4,871
Trade and other receivables		62,711	58,463
Total current assets		**66,021**	**63,334**
Trade and other receivables		75,939	67,139
Deferred tax assets		3,680	2,898
Property, plant and equipment		9,072	7,163
Rental Assets		59,910	52,929
Intangible assets		26,961	27,893
Total non-current assets		**175,562**	**158,022**
Total Assets		**241,583**	**221,356**
Liabilities			
Trade and other payables		33,998	26,117
Employee benefits		5,356	4,719
Income tax payable		5,091	4,520
Provisions		589	502
Total current liabilities		**45,034**	**35,858**
Loans and borrowings	8	32,900	28,900
Employee benefits		323	338
Provisions		973	887
Total non-current assets		**34,196**	**30,125**
Total Liabilities		**79,230**	**65,983**
Net Assets		**162,353**	**155,373**
Equity			
Issued capital		97,804	95,483
Rserves		2,986	2,769
Retained earnings		61,563	57,121
Total equity		**162,353**	**155,373**

The condensed consolidated statement of financial position is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 11 to 15.

In thousands of AUD

	30 September 2013	30 September 2012
Cash flows from operating activities		
Cash receipts from customers	124,944	113,344
Cash paid to suppliers and employees	(59,491)	(57,978)
Cash generated from operations	65,453	55,366
Interest paid	(944)	(555)
Interest received	56	105
Income tax paid	(6,333)	(4,961)
Net cash from operating activities	**58,232**	**49,955**
Cash flows from investing activities		
Proceeds from sale of assets	794	504
Acquisition of rental assets	(40,002)	(33,745)
Thorn Equipment Finance settlements	(15,162)	(18,749)
Acquisition of property, plant and equipment and software	(2,881)	(1,592)
Net cash used in investing activities	**(57,251)**	**(53,582)**
Cash flows from financing activities		
Proceeds from borrowings	4,000	8,000
Dividends paid	(6,542)	(8,051)
Net cash used in financing activities	**(2,542)**	**(51)**
Net decrease in cash and cash equivalents	(1,561)	(3,678)
Cash and cash equivalents at April 1	4,871	5,870
Cash and cash equivalents at 30 September	**3,310**	**2,192**

The condensed consolidated statement of cash flows is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 11 to 15.

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 2013 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group for the year ended 31 March 2013 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. 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 2013.

These condensed consolidated interim financial statements were approved by the Board of Directors on 19 November 2013.

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 2013.

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 2013.

5. Operating segments

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

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

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

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

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

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

Information about reportable segments

For the six months ended 30 September

In thousands of AUD	**Consumer Leasing**		**Credit Management**		**Thorn Equipment Finance**		**Thorn Financial Services**		**Consolidated**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Segment revenue	93,867	85,002	10,600	9,048	3,939	2,599	4,245	3,706	112,651	100,355
Profit Before interest, tax, depreciation and amortisation	23,243	24,611	1,959	1,592	1,552	406	505	576	27,259	27,185
Depreciation	(697)	(661)	(208)	(221)	(24)	(24)	(23)	(7)	(952)	(913)
Profit Before interest, tax and amortisation	22,546	23,950	1,751	1,371	1,528	382	482	569	26,307	26,272

5. Operating segments (continued)

Reconciliation of reportable segment profit or loss

In thousands of AUD	**2013**	**2012**
Profit before interest and tax for reportable segments	26,307	26,272
Unallocated amounts:		
Other corporate expenses	(5,112)	(4,647)
Customer relations intangibles amortisation	(880)	(880)
Net financing costs	(888)	(450)
Profit before tax	19,427	20,295

Reconciliation of reportable revenue

In thousands of AUD	**2013**	**2012**
Revenue for reportable segment	112,651	100,355
Finance Income	56	105
Revenue	112,707	100,460

6. Subsequent events

On 19 November 2013, the Directors declared a fully franked dividend of 4.5 cents per share. The dividend will be paid on 17 January 2014. The dividend has not been provided for in the 30 September 2013 condensed consolidated interim financial statements.

7. Financial instruments

Financial instruments carried at fair value require disclosure of the valuation method according to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data.

The consolidated entity's only financial instruments that are measured and recognised at fair value are purchase debt ledgers (PDLs). They are classified as Level 3.

The fair value of the PDLs as at the reporting date is:

In thousands of AUD	**30 September 2013**	**31 March 2013**
Current	3,326	3,697
Non-current	5,189	4,599
Total	8,515	8,296

The following summarises the assumptions used in these calculations:

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

Revenue recognised for the six months ended 30 September:

In thousands of AUD	**2013**	**2012**
PDL interest	1,661	708
Change in fair value	288	420
Total	1,949	1,128

8. Loans and borrowings

In thousands of AUD	**30 September 2013**	**31 March 2013**
Bank facility available	50,000	50,000
	50,000	50,000
Bank facility utilised at balance date	32,900	28,900
	32,900	28,900
Bank facility not utilised at reporting date	17,100	21,100
	17,100	21,100

Thorn Australia Pty Limited has a loan provided by the Westpac Banking Corporation. The loan is denominated in Australian dollars. The loan is due to expire on 31 July 2016. Security is provided to Westpac Banking Corporation by way of a fixed and floating charge over the assets of the consolidated entity.

9. Capital and Reserves

Dividends

	Six months ended 30 September 2013		
	Cents per share	**Total $'000s**	**Date paid / payable**
Recognised Amounts			
Final Dividend	6.00 cents	8,863	18 Jul 2013
Unrecognised Amounts			
Interim Dividend	4.50 cents	6,700	17 Jan 2014

	Six months ended 30 September 2012		
	Cents per share	**Total $'000s**	**Date paid / payable**
Recognised Amounts			
Final Dividend	5.50 cents	8,051	22 Jul 2012
Unrecognised Amounts			
Interim Dividend	4.50 cents	6,605	17 Jan 2013

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

10. Earnings per share

Basic earnings per share
The calculation of basic earnings per share for the six months ended 30 September 2013 was based on profit attributable to ordinary shareholders of $13,305,000 (2012: $14,007,000) and a weighted average number of ordinary shares of 148,134,000 (2012: 146,375,000).

Diluted earnings per share
The calculation of diluted earnings per share for the six months ended 30 September 2013 was based on profit attributable to ordinary shareholders of $13,305,000 (2012: $14,007,000) and a weighted average number of ordinary shares of 149,055,000 (2012: 146,606,000).

	30 September 2013	**30 September 2012**
Basic earnings per share		
In cents		
From continuing operations	8.98	9.57
Diluted earnings per share		
In cents		
From continuing operations	8.93	9.55

In the opinion of the directors of Thorn Group Limited (the ‘Company’):

1. the financial statements and notes set out on pages 7 to 15, 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 2013 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 from the Chief Executive Officer and Chief Financial Officer for the interim period ended 30 September 2013.

Signed in accordance with a resolution of the directors

David Carter
Chairman

Dated at Sydney, this 19th day of November 2013

KPMG

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

We have reviewed the accompanying interim financial report of Thorn Group Limited, which comprises the condensed consolidated statement of financial position as at 30 September 2013, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim 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* and 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

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 Group's financial position as at 30 September 2013 and its performance for the interim period 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 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 interim financial report of Thorn Group Limited is not 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 2013 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Anthony Travers
Partner

Sydney

19 November 2013