



Annual Report

31 March 2020

ACN 072 507 147

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DIRECTORS' REPORT

For the year ended 31 March 2020

The directors present their report together with the financial report of Thorn Group Limited (the 'Company') and its controlled entities (together referred to as 'Thorn', the 'Group' or the 'consolidated entity') for the financial year ended 31 March 2020 and the auditor's report thereon.

PREFACE

The year for Thorn has been an eventful one, with changes in its substantial shareholders, a new board of directors, the appointment of a new CEO, the departure of other members of senior management, the settlement of the class action, a capital raising, and the COVID-19 pandemic.

Thorn's board of directors and its CEO have taken significant decisions to seek to best position the Company for the future. These include the permanent closure of all Radio Rentals stores (which had been temporarily closed to mitigate some of the effects of COVID-19), a significant tightening, until the economic and funding situation becomes clear, of the criteria of new facilities in the Business Finance division, which has decreased the number of new facilities and the total amount advanced, and a significant number of the Company's staff becoming redundant.

At the mid-year point, a loss for the full year was anticipated after the \$26 million charge for the class action settlement. The write off a substantial number of debts in the Business Finance division in the second half added additional expense. The announcement of the closure of the Radio Rentals stores changed the carrying value of certain assets and liabilities in that division including inventory and finally the emergence of COVID-19 then prompted Thorn to take up further provisions to reduce the valuation of assets, primarily receivables under lease contracts, on the balance sheet down to their current carrying amounts in accordance with accounting standards.

In the absence of historical evidence from which to position a provision for expected losses from the effects of COVID-19, the board of directors has had to determine suitable provisions based on judgement and advice from management and advisers. The method chosen and the results are explained further in the financial statements. The outcomes were a \$22.1 million provision for Business Finance and a \$13.5 million provision for Consumer Leasing.

It was then determined not to take up all the deferred tax benefit attributable due to the size of the available tax losses and the difficulty in forecasting the Company's future profitability to be able to fully utilise them.

This is a substantial list of changes to the Company's business and the financial statements and takes the result for the year to a loss of \$(81.1) million.

OPERATING AND FINANCIAL REVIEW

Principal activities

Thorn is a diversified financial services group providing the leasing of household products to consumers, and commercial asset finance to small and medium size enterprises. There were no other significant changes in the nature of the activities of the consolidated entity during the year.

Financial performance

A\$m	Segment revenue		Segment EBIT to NPAT	
	2020	2019	2020	2019
Consumer Leasing	162.4	178.7	(8.0)	(2.1)
Business Finance	41.9	43.2	(19.1)	16.1
Corporate	-	-	(8.3)	(11.9)
Significant items – class action and strategic review	-	-	(26.7)	(11.9)
Sub-total	204.3	221.9	(62.1)	(9.8)
Net interest expense			(16.3)	(15.4)
Loss before tax			(78.3)	(25.2)
Tax expense			(2.7)	7.1
Net loss after tax from continuing operations			(81.1)	(18.1)
Profit from discontinued businesses after tax			-	3.2
Net loss after tax			(81.1)	(14.9)

DIRECTORS' REPORT

For the year ended 31 March 2020

Revenue from continuing operations fell 7.9% to \$204.3m (2019: \$221.9m), and the net profit after tax ('NPAT') fell from a \$(14.9)m loss to a \$(81.1)m loss.

The profit and loss statement includes significant items which are displayed below separate to the normal operating results of the Group. This year \$26.7m of costs were incurred for the class action and the strategic review and are presented as significant items, the last year comparative contains asset impairments and class action legal costs of a combined \$11.9m. Within the reported operating EBIT for Consumer Leasing and Business Finance are additional provision charges of \$13.5m and \$22.1m respectively for the expected credit loss as a result of COVID-19 on the receivables books in those divisions.

Consumer Leasing

The Company's consumer leasing division, Radio Rentals, recorded lower sales units and revenues this year with 74,503 units being installed in the year which was 10.6% lower than last year's 83,299. Revenue for the 2020 financial year reduced by \$16.3m to \$162.4m (2019: \$178.7m). Revenue is a combination of sales revenue from installations under new contracts and the interest and fee income from past written contracts. Interest income reduced as the receivables book (before provisioning), which generates the interest income, fell 10.5% to \$146.0m (2019: \$163.1m).

In the face of reduced revenue, the costs of the division were cut. Costs, other than impairment expenses, reduced by \$18.7m, by a combination of reductions in cost of goods sold, staff costs and other expenses.

The introduction of AASB 16 generated a right of use asset for the leased property and vehicles along with a lease liability but the right of use asset was written off upon introduction through reserves. If AASB 16 had not been adopted rent expense would have been \$7.3m higher. The \$7.3m was replaced by \$0.7m of financing expense. The difference, \$6.7m, would usually have been presented as depreciation, however due to the impairment depreciation was zero. Additionally new leases capitalised during the year were immediately impaired through the impairment line at an expense of \$1.9m. The net positive impact to profit before tax was \$4.8m.

The credit loss impairment expense on the lease receivables book rose \$8.4m to \$38.8m (2019: \$30.4m) including the additional provision of \$13.5m taken up for the expected impact of COVID-19 and the closure of the store network. Arrears over 30 days outstanding at the year-end finished at 15.7% compared to 13.8% at 31 March 2019.

EBIT was a \$8.0m loss (2019: \$2.1m loss).

Business Finance

Originations of equipment leases and chattel mortgages were \$152.0m for the year which was broadly in line with the prior year total of \$150.5m. The portfolio interest rate remained stable across the year. The receivables book reduced from \$345.2m to \$323.4m before the provision for expected credit losses.

Revenue decreased 3.1% to \$41.9m (2019: \$43.2m). Arrears have trended up from 4.4% at the end of March 2019 to 5.1% at this year-end. Impairment expenses for credit loss rose \$32.5m to \$49.9m (2019: \$17.4m) and included the additional provision of \$22.1m for the expected credit loss impact of COVID-19. At the time of writing, approximately 31% of customers by value with a principal amount owing of circa \$100m have applied for payment holiday relief citing COVID-19. Costs other than impairment increased by \$1.3m during the year with additional costs being recorded for collection staff and the legal recoveries process.

EBIT was a \$19.1m loss (2019: \$16.1m profit).

Corporate

Corporate expenses were cut by 30.3% to \$8.3m (2019: \$11.9m) as management have continued to focus on the aligning the cost structure with the current revenue base. The majority of the reduction was achieved through reduced headcount. Insurance costs for directors and officers insurance also increased.

Significant items

The \$26.0m of costs incurred in settling the Radio Rentals class action including the associated legal fees are recorded as a significant item along with \$0.7m of costs for the strategic review.

Net interest expense

Net interest expense increased by 5.5% from \$15.4m to \$16.3m. These costs now include \$0.7m of financing charges on operating lease liabilities due to the adoption of AASB 16. Borrowings in the warehouse rose marginally to \$293.5m (2019: \$288.6m) which led to marginally higher funding costs in the Business Finance division. The corporate facility balance conversely was slightly reduced during the year down to \$12.0m (2019: \$15.0m).

Tax expense

The Company recorded a large loss before tax but has not taken up the full tax benefit attributable as directors were not certain that there would be sufficient taxable profits in future years to justify the recording of such a large asset on the balance sheet.

Financial position

The balance sheet is presented below and has two versions. The first version excludes the securitised warehouse trust borrowings for Business Finance along with those associated receivables (which are non-recourse funding for the warehouse) leaving only the corporate bank debt facility, and the second is as per the statutory accounts format. This additional column format is presented so the reader can view the gearing and financial position of Thorn without the securitised warehouse trust and its cash, receivables, and borrowings.

Summarised financial position \$m	31 March 2020		31 March 2019	
	excl. Trust	incl. Trust	excl. Trust	incl. Trust
Cash at bank	28.7	49.6	7.9	30.6
Receivables	91.7	389.8	167.5	457.4
Investment in unrated notes	25.5	-	24.0	-
Inventories and other assets	13.9	13.9	24.8	24.8
Intangible assets	-	-	-	-
Total Assets	159.8	453.4	224.2	512.8
Borrowings	12.0	305.5	15.0	303.6
Other liabilities	42.1	42.1	40.9	40.9
Total Liabilities	54.1	347.6	55.9	344.5
Total Equity	105.8	105.8	168.3	168.3
Gearing (net debt/equity) ⁽ⁱ⁾	-15.8%	261.7%	4.2%	171.9%
EPS		(33.7)		(9.3)

(i) Gearing is calculated as closing net debt (i.e. debt less free cash) divided by closing equity

Cash at bank

The cash at bank amount includes the free cash available to the Group for its usual working capital balance plus the tied cash which is both customer receipts held in the securitised warehouse special purpose vehicle and cash reserves required to support the public rating of the notes. At the year end, free cash was \$28.7m and tied cash \$20.9m (2019: \$7.9m and \$22.7m).

Receivables

The balance consists of consumer leasing receivables and business finance receivables. All are stated as their gross amount less unearned interest, less a provision for any expected credit loss. Those provisions have been increased this year as a result of the significant increase in credit risk and losses anticipated to arise from the COVID-19 pandemic.

The Consumer Leasing receivables gross balance reduced by \$17.1m to \$146.0m (2019: \$163.1m) due to lower originations and the total book reducing accordingly. The provision increased by \$9.6m to \$(36.3m) (2019: \$(26.7m)). This included a \$13.5m

provision for the expected impact of COVID-19 and store closures. The net receivables balance reduced by \$26.7m to \$109.7m (2019: \$136.4m).

The Business Finance receivables gross balance reduced by \$22.5m to \$325.5m (2019: \$348.0m) due to lower originations and higher write offs. The provision increased by \$18.0m to \$(45.3m) (2019: \$(27.1m)). This included a \$12.1m provision for the expected impact of COVID-19. The net receivables balance reduced by \$40.8m to \$280.2m (2019: \$321.0m).

In the table above, the columns which exclude the warehouse trust eliminate the Business Finance receivables held in the warehouse leaving the Consumer Leasing receivables, the remaining Business Finance receivables which are not financed through the warehouse along with the provisions for impairment.

Investment in unrated notes

This balance represents the equity notes held by the Group in the securitised warehouse representing 8% of the notes by value.

Borrowings

The corporate facility was paid down by \$3.0m from \$15.0m to \$12.0m during the year. The securitised warehouse borrowings were paid down by \$10.1m to \$293.5m (2019: \$303.6m) during the year.

Other liabilities

Other liabilities increased by \$1.1m which was driven by the introduction of \$11.7m of lease liabilities under AASB 16, plus \$2.0m due to the interest rate derivative used to hedge the Business Finance book going up from \$3.3m to \$6.3m. There were countervailing reductions due to the finalisation of the regulatory remediation program and the settlement of related provisions and liabilities.

Funding

The Group has the following debt facility limits:

\$m	2020	2019
Secured Corporate Loan Facilities A and B	17.0	30.0
Securitised Warehouse Facility	368.0	368.0

Corporate facilities

The corporate debt facility is in two parts; the 'A' facility which is a general corporate facility fully drawn to its \$12.0m limit, and the 'B' facility which is a \$5.0m limit of a combined undrawn overdraft and drawn bank guarantees to landlords and suppliers. The 'B' facility utilization varies with the level of overall guarantees given and was drawn to \$3.0m at year end to fund bank guarantees and the remaining available overdraft facility was undrawn. The drawn balance in facility 'A' of \$12.0m is presented as a current liability in the statement of financial position as the facility matures on 30 November 2020 and the intention is to repay it at that time. The corporate facilities are secured by a fixed and floating charge over the assets of the consolidated entity.

During the year the Group entered into a revised arrangement with its lender on its corporate facility which waived the Group's obligation to comply with any financial covenants until 14 April 2020. As part of this arrangement, the Group's \$25.0m facility 'A' limit was reduced to \$15.0m at 30 September 2019 and subsequently reduced to \$12.0m in October 2019 following the Group's rights issue. The Group is currently operating without a waiver but is in negotiations with its lender over a further waiver which envisages repaying the \$12m corporate facility progressively through to 30 November 2020 and abiding under a new covenant not to pay a dividend while the corporate facilities remain unrepaid.

Warehouse facility

Thorn Business Finance is financed by a securitised warehouse structure with senior notes (70%) held by a major Australian bank, mezzanine notes (22%) held by a major Australian financial services company, and equity class F notes (8%) held by Thorn.

The warehouse facility was reviewed by the note holders in the normal course of business during the year with the availability period being extended to 10 August 2020 and the final maturity date to 10 August 2026.

The warehouse facility is secured by rentals and payments receivable from the underlying lease receivable contracts and is non-recourse to the Group by which it is meant that Thorn's liability is limited to its class F notes unless it is liable in damages for breach of the documents or it is required to buy back an ineligible receivable (defined as one that breached Thorn's initial sale representations and not merely that it goes into arrears or defaults).

DIRECTORS' REPORT

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The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current. At maturity no further leases are able to be sold down into the facility and the portfolio will amortise off for as long as the underlying leases are payable. In order for the Group to utilise the available headroom in the Warehouse facility, the Group, as the holder of the residual interest, needs to fund a minimum percentage of the value of receivables sold down into the warehouse facility.

On 5 May 2020, when calculating the 30 April 2020 warehouse monthly financial results, the warehouse facility was determined to have a breach in one of its warehouse parameters which requires no more than 6% of the balances to be in arrears by more than 30 days. That arrears number was 10.5% and was directly due to the increasing presence of COVID-19 affected customers many of whom had requested a payment holiday and stopped repayments under their leases.

When the COVID-19 pandemic arose and Thorn began receiving payment holiday requests, Thorn held discussions with the senior and mezzanine noteholders around the granting of concessions such that Thorn could vary the customer contracts to include a payment holiday. Those discussions had not progressed to a resolution by 5 May 2020 and so the inevitable arrears increase triggered the breach.

A breach of this parameter is an amortisation event which, if not waived or remedied, puts the warehouse into run off under its amortisation rules. While such an event subsists, Thorn is unable to sell its originations into the warehouse and the distributions it was expecting from the warehouse via the waterfall distribution mechanism will decline depending upon the extent of the cash flow reduction.

Discussions are continuing with the senior and mezzanine note holders. If this situation remains unresolved then Thorn will endeavour to seek new sources of finance.

DIVIDENDS PAID OR RECOMMENDED

There were no dividends declared or paid during the financial year:

	Cents per share	Amount \$'000	Franking	Date of payment
2020				
Final 2019	-	-	n/a	n/a
Interim 2020	-	-	n/a	n/a
Total amount		-		
2019				
Final 2018	-	-	n/a	n/a
Interim 2019	-	-	n/a	n/a
Total amount		-		

Directors have resolved that no final dividend be declared.

REGULATORY MATTERS

Thorn finalised its Enforceable Undertaking, originally entered into with ASIC on 23 January 2018, during the year.

The Group is not subject to any significant environmental regulation. Thorn's asset valuations, useful lives, fair values, costs of or demand for its products, and credit losses from its receivable books are unlikely to be materially affected by climate change. Thorn does seek to source products for its consumer division customers which are environmentally friendly and efficient and does seek to finance solar installations.

CONTINGENT LIABILITY

The class action which was previously classified as a contingent liability was settled during the year for an amount of \$25.0m paid by Thorn. This settlement was approved by the Federal Court on 20 December 2019.

DIRECTORS' REPORT

For the year ended 31 March 2020

SUBSEQUENT EVENTS

The COVID-19 pandemic has had two significant impacts upon Thorn subsequent to the year end.

Securitised warehouse funding

First, as explained above in the Funding section, the pandemic has affected the financial position of many of Thorn's customers and in particular reduced the cash repayments being received from Thorn Business Finance division customers. That reduced cash flow has had the consequent impact upon the warehouse financing structure described and has caused an amortisation event to subsist which precludes Thorn selling any further receivables into the warehouse and changes the waterfall cash flows to repay the more senior notes first.

Discussions are continuing with the senior and mezzanine note holders. If this situation remains unresolved then Thorn will endeavour to seek new sources of finance.

Radio Rentals store closures and transition to fully online

The health and safety concerns for Radio Rentals customers and staff during the developing COVID-19 pandemic prompted Thorn to temporarily close the Radio Rentals stores on 2 April 2020.

Thorn had at the time been developing a plan to address the division's profitability and the substantial move by customers to the online platform where 70% of applications were being received online. On 23 April 2020, Thorn announced the decision to permanently close the Radio Rentals store network, collect the legacy receivables book, and develop its core Radio Rentals business using a purely online platform.

This decision entails approximately 300 redundancies at an estimated cost of \$5m which is not provided for in these financial statements as it is a non-adjusting accounting event, the termination of all Radio Rentals store leases with a settlement sum to be paid to the lessors and make good expenses where appropriate, the realisation of the existing inventory position, incurring of expenses to continue to service and collect on the receivables book, and developing the digital business model. These are substantial changes to the division's business model which will have a significant impact on the company and its financial statements going forward.

FINANCING AND GOING CONCERN BASIS FOR THE FINANCIAL REPORT

The directors have determined that the going concern basis is appropriate in preparing the financial report.

The Group incurred a net loss after tax of \$81.1m (2019: \$14.9m loss) for the year ended 31 March 2020 and net cash used in operating activities during the same period amounted to a \$9.2m (2018: \$12.9m) out flow. It should also be noted that the net operating cash outflow includes outflows of \$61.2m for inventory of household goods assets used to seed Radio Rentals consumer leases and \$155.8m for originations in Business Finance.

The Group provides financing to both consumers and small and medium size enterprises across a range of industries, many of which have been impacted by COVID-19. Approximately 30% of the Group's SME customers by value have requested payment holidays. Thorn continues to be in discussion with the senior and mezzanine note holders in the securitised warehouse regarding relief options.

Subsequent to the year end, the securitised warehouse fell into breach of one of its warehouse parameters as a result of customers affected by COVID-19 progressively going into arrears. That breach while it subsists puts the warehouse into amortisation. Discussions are continuing with the note holders to waive or remedy that breach.

Thorn's Radio Rentals division has been affected by COVID-19 with the Group announcing the temporary closure of its store network for safety reasons, and then a permanent closure of the Radio Rentals stores and warehouses and moving the business completely online. These closures are expected to result in redundancies for approximately 300 casual and full time staff across the Group.

The core of the Radio Rentals business will continue to operate and will be leveraged to develop a new digital business model. Thorn has introduced new credit policies and collection processes as well as cutting costs across all divisions to seek to ensure the business model remains sustainable into the future.

The cost reductions underway, the tightening of Business Finance originations and the collecting on the Radio Rentals receivables book will all be cash positive for the Group. The continuing viability of the Group as a going concern beyond that point is dependent upon the Group returning to profitability, resolving present financing difficulties so as to be able to revitalise Business Finance, and successfully progressing the Radio Rentals digital strategy.

DIRECTORS' REPORT

For the year ended 31 March 2020

Considering all the above, and acknowledging that corporate actions and discussions with current or proposed lenders always contain some risk and uncertainty, the directors have reviewed the Group's cash flow forecast and, in the directors' opinion, there are reasonable grounds to believe that the collecting on the Radio Rentals book will provide sufficient incoming cash flow to ensure the Group will be able to meet its obligations and accordingly continue as a going concern.

While the directors are of the opinion expressed above, the resolution of funding for the Business Finance division and the launch of Radio Rentals online business are not guaranteed and accordingly a material uncertainty exists that may cast significant doubt as to whether Thorn will be able to continue as a going concern and therefore whether Thorn will be able to realise its assets and discharge its liabilities in the normal course of business and for the amounts recorded in this report.

OUTLOOK

Given the significant effect that the ongoing COVID-19 pandemic is having, there are insufficient grounds to be able to provide a detailed and reliable outlook statement and profit guidance at the present time.

Thorn will progress its announced actions on Radio Rentals, will invest in and launch the new digital Radio Rentals business, and seek to resolve the funding issues in the Business Finance division.

DIRECTORS' REPORT

For the year ended 31 March 2020

DIRECTORS' INFORMATION

Warren McLeland

Non-Executive

Appointed 30 August 2019

Appointed Board Chairman 23 October 2019

Appointed Chair of Risk and Compliance Committee 4 December 2019

Qualifications

Bachelor of Science

MBA

Experience

Warren has over 40 years' experience in financial services, in wholesale and retail sectors at top business management and CEO levels. Warren's experience has been gained in organisations such as Bain and Co and Chase Manhattan (now JP Morgan Chase). Warren is the Non-Executive Chairman of ASX listed Resimac Group Limited and was formerly the CEO. Warren is a former non-executive director of UIL Limited.

Other current ASX directorships

Resimac Group Ltd

Former ASX directorships

Interests in shares and options

Nil

Kent Bird

Independent, Non-Executive

Appointed 30 August 2019

Appointed Deputy Chair of the Board 11 October 2019 and the Chair of Thorn's Remuneration and Nomination Committee 30 August 2019

Qualifications

Bachelor of Business

Graduate Diploma in Applied Finance

Experience

Kent is a banking and finance professional with 25 years' experience in commercial and investment banking.

Kent was with Credit Agricole CIB Australia Limited for 12 years and was the Managing Director – Head of Loan Syndications Australia and Head of DCM Origination Australia for the last three years, ending in December 2018. Prior to this, Kent worked at various financial institutions such as Suncorp Limited, Heritage Bank Limited and the Queensland Office of Financial Supervision (now the Australian Prudential Regulation Authority).

Other current ASX directorships

None

Former ASX directorships

None

Interests in shares and options

133,186 ordinary shares

Paul Oneile

Independent, Non-Executive

Appointed 14 October 2019

Appointed Chair of Audit Committee 4 December 2019

Qualifications

Bachelor of Economics

Experience

Paul is the current Chair of ASX listed company, A2B Australia Limited (formerly Cabcharge Australia Limited).

Previously Paul was the non-executive Chairman of Intecq Limited (formerly eBet Limited), from 2012 until its acquisition by Tabcorp Holdings Limited in December 2016.

From 2003 to 2008, Paul was CEO of Aristocrat Leisure Limited where he oversaw significant business and cultural change, refocused R&D spending, streamlined the supply chain operation, and successfully oversaw growth of the company's international operations.

Other current ASX directorships

A2B Australia Ltd A2B Limited (formerly Cabcharge Australia Limited)

Former ASX directorships

Aristocrat Leisure Ltd

Intecq Limited (formerly eBet Limited)

Village Roadshow Limited

Interests in shares and options

Nil

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Allan Sullivan

Non-Executive

Appointed 30 August 2019

Qualifications

Bachelor of Science, Bachelor of Engineering, Doctor of Engineering

Experience

Allan has had a professional career spanning over 30 years involving senior management roles in Switzerland, Holland, Korea, Hong Kong and Australia. Allan has a Bachelor of Science, a Bachelor of Engineering and a Doctor of Engineering from the University of Sydney.

Allan was the Chief Executive Officer and Director of the listed ASX-ERG Group of Companies based in Perth (now Vix Technology) from 2004 to 2007. Since 2007, Allan has acted as a consultant to the VIX Verify Group and the Allectus Capital Group in relation to their technology businesses. More recently, Allan has acted as Executive Chairman of the VIX Verify Group, managing the successful sale of VIX Verify Global Identification business to the UK listed GB Group.

Other current ASX directorships

None

Former ASX directorships

Vix Technology Ltd

Interests in shares and options

205,999 ordinary shares

David Foster

Independent, Non-Executive

Appointed 1 December 2014, retired on 23 October 2019

Appointed Board Chairman 1 February 2018, Chairman until his retirement on 23 October 2019

Qualifications

Bachelor of Applied Science

MBA, GAICD, SFFIN

Experience

David is an experienced Independent Non-Executive Director across a range of industries. He has had an extensive career in Financial Services spanning over 25 years.

His most recent executive role until December 2013 was CEO of Suncorp Bank, a role he commenced in September 2008. Prior to his role as CEO of Suncorp Bank, David led Suncorp's strategy function which included numerous merger and acquisition activities including one of Australia's largest Financial Services transactions – Promina Limited.

Other current and former ASX directorships

G8 Education Limited

MotorCycle Holdings Limited

Genworth Mortgage Insurance Australia Limited

Kina Securities Limited

Interests in shares and options

Nil

Belinda Gibson

Independent, Non-Executive

Appointed 1 July 2016, retired 4 December 2019

Chairman of the Risk & Compliance Committee

Appointed 1 February 2018, Chairman until her retirement on 4 December 2019

Qualifications

Bachelor of Economics, LLB (Hons) (Sydney) and LLM (Hons) (Cambridge), FAICD, FGIA

Experience

Belinda was a Commissioner and then Deputy Chairman of the Australian Securities and Investments Commission (ASIC) from 2007 until May 2013. From 1987 until joining ASIC she was a corporate law partner at the law firm Mallesons Stephen Jaques, specialising in transactional advice and also corporate governance issues.

Other current and former ASX directorships

Getswift Limited

Interests in shares and options

Nil

Andrew Stevens

Independent, Non-Executive

Appointed 1 June 2015, retired 4 December 2019,

Chairman of the Audit Committee

Appointed 1 February 2018, Chairman until his retirement on 4 December 2019

Qualifications

Master of Commerce

FCA

Experience

Andrew began his career at Price Waterhouse (now PwC) and was a Partner of that firm for 12 years. He also performed a range of senior management and global leadership roles at IBM Corporation, most recently serving as the Managing Director of IBM Australia and New Zealand from 2011-2014.

Other current and former ASX directorships

Stockland Corporation Limited

MYOB Group Limited

Interests in shares and options

Nil

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Stephen Kulmar

Independent, Non-Executive

Appointed 15 April 2014, retired 30 August 2019

Chairman of the Remuneration & Nomination Committee

Appointed 15 April 2014, Chairman until his retirement on 30 August 2019

Experience

Stephen is the former Managing Director and Chairman of IdeaWorks and is currently the Managing Director of Retail Oasis, retail marketing and business consultancy.

Stephen has over 40 years' experience in advertising and has extensive experience in retail strategy, brand strategy, channel to market strategy, digital and social strategy, business re-engineering and new retail business development.

Other current and former ASX directorships

Accent Group Ltd

Interests in shares and options

136,000 ordinary shares

Joycelyn Morton

Independent, Non-Executive

Appointed 1 October 2011, resigned 31 May 2018

Board Chairman 26 August 2014 until 1 February 2018

Qualifications

Bachelor of Economics FCA, FCPA, FIPA, FGIA, FAICD

Experience

Joycelyn has more than 35 years' experience in finance and taxation having begun her career with Coopers & Lybrand (now PwC), followed by senior management roles with Woolworths Limited and global leadership roles in Australia and internationally within the Shell Group of companies.

Joycelyn was National president of both CPA Australia and Professions Australia, she has served on many committees and councils in the private, government and not-for-profit sectors.

Other current and former directorships

Argo Investments Limited, Argo Global Listed Infrastructure Limited, Beach Energy Limited

InvoCare Limited, Crane Group Limited

Count Financial Limited, Noni B Limited

Interests in shares and options

95,119 ordinary shares

Tim Luce

Managing Director

Appointed 15 February 2018, Managing Director and CEO

until his retirement on 12 February 2020

Qualifications

Bachelor of Commerce

Experience

Tim has extensive executive experience working with retail brands in Australia and Asia and joins Thorn Group after six years with Courts Asia Ltd, an SGX listed retailer with over 90 stores selling household, technology, furniture, services and consumer finance products, headquartered in Singapore where he was Chief Operating Officer with P&L responsibility for Singapore, Malaysia and Indonesia. Prior to Courts, Tim held General Manager roles for Lovisa and Goldmark Jewellers.

Interests in shares and options

738,117 ordinary shares

598,803 performance rights

Company Secretary

Alexandra Rose (BLaws, MBA, FAID, FGIA, FCIS) is the Group's General Counsel and General Manager of Risk & Compliance having joined the company on 30 October 2019. Alexandra is an experienced corporate lawyer with over 20 years of legal, risk and regulatory expertise. She has held senior executive roles at a number of leading Australian financial services companies.

DIRECTORS' REPORT

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Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are detailed below.

Director	Board Meetings		Audit Committee Meetings		Risk & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
Warren McLeland	10	11	1	1	0	1	1	1
Kent Bird	11	11	1	1	1	1	1	1
Paul Oneile	7	7	1	1	0	0	1	1
Allan Sullivan	11	11	1	1	1	1	1	1
David Foster	14	14	2	2	4	4	2	2
Belinda Gibson	15	17	3	3	4	4	3	3
Andrew Stevens	16	17	3	3	4	4	3	3
Stephen Kulmar	9	11	2	2	3	3	2	2
Tim Luce	19	19	3	3	4	4	3	3

A – Number of meetings attended

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has agreed to indemnify the current, former and subsequent directors and officers of the Company, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year the Company has paid insurance premiums of \$931,000 in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving misconduct. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

DIRECTORS' REPORT

For the year ended 31 March 2020

REMUNERATION REPORT

The Board of Thorn Group Limited presents the remuneration report which outlines key aspects of the remuneration policy and framework and the remuneration awarded this year.

The information provided in this report has been prepared based on the requirements of the Corporations Act 2001 and the applicable accounting standards and has been audited by PwC.

The report is structured as follows:

1. Remuneration governance
2. Non-Executive Directors and Key Management Personnel
3. Non-Executive Director remuneration
4. Key Management Personnel remuneration
5. Alignment between remuneration and performance
6. Service contracts for KMP
7. Other statutory disclosures

1. REMUNERATION GOVERNANCE

The Company aims to deliver sustainable and superior returns to shareholders. The remuneration framework is designed to ensure rewards are appropriate for the results achieved and are aligned to the Company's strategic goals and shareholder wealth creation.

The Board provides guidance and oversight to the remuneration strategy and has established a Remuneration & Nomination Committee to ensure the remuneration strategy attracts and retains quality directors and executives, fairly and responsibly rewards them, is equitable and aligned to shareholders' interests, and complies with the law and high standards of governance.

The Committee is made up of independent non-executive directors and its charter is available on the Company website. The Committee makes recommendations to the Board for its consideration and approval. The Committee Chairman will be available at the Annual General Meeting to answer any questions from shareholders on this report. At the 2019 AGM, the Remuneration Report received a vote of approval of 12% of the votes received and hence was rejected by shareholders.

The Committee can draw on independent experts where appropriate to provide advice on remuneration levels, trends and structures. Where this occurs the consultants are instructed by and report directly to the Chairman of the Committee and are thereby free of any undue influence by any KMP to whom their recommendations may relate.

2. NON-EXECUTIVE DIRECTORS AND KEY MANAGEMENT PERSONNEL - AUDITED

For the year ended 31 March 2020, the NEDs and KMP were:

Non-Executive Directors	Position	Director/Committee Chair Term or Date
Warren McLeland	Director	Appointed 30 August 2019
	Board Chairman	Appointed 23 October 2019
	Chairman of Risk & Compliance Committee	Appointed 4 December 2019
Allan Sullivan	Director	Appointed 30 August 2019
Kent Bird	Director	Appointed 30 August 2019
	Chairman of the Remuneration & Nomination Committee	Appointed 30 August 2019
Paul Oneile	Director	Appointed 14 October 2019
	Chairman of Audit Committee	Appointed 4 December 2019
David Foster	Director and Board Chairman	Until 23 October 2019
Stephen Kulmar	Director and Chairman of the Remuneration & Nomination Committee	Until 30 August 2019
Andrew Stevens	Director and Chairman of Audit Committee	Until 4 December 2019
Belinda Gibson	Director and Chairman of Risk & Compliance Committee	Until 4 December 2019

DIRECTORS' REPORT

For the year ended 31 March 2020

Executive KMP	Position	Term or Date
Pete Lirantzis	CEO	Appointed 10 February 2020
Alexandra Rose	General Counsel, General Manager Risk & Compliance and Company Secretary	Appointed 30 October 2019
Peter Forsberg	Chief Financial Officer	Full Year
Tim Luce	CEO and Managing Director	Until 12 February 2020
Wendy Yip	Chief Risk Officer	Until 22 November 2019
David Lines	General Counsel and Company Secretary	Until 16 August 2019

NB. Peter Forsberg resigned as Company Secretary on 7 May 2020.

3. NON-EXECUTIVE DIRECTOR REMUNERATION - AUDITED

Non-executive directors' fees are determined within an aggregate directors' fee pool as approved by shareholders from time to time. Independent remuneration consultants are employed periodically to provide advice and, where an increase is recommended, this is put to shareholders at the subsequent AGM. The current maximum aggregate fee pool is \$650,000 inclusive of superannuation per annum and was last voted upon by shareholders at the 2013 AGM. The Board does not intend to seek an increase to the fee pool at the 2020 AGM.

The new directors appointed during the year reduced their fees. The base annual fee for the Chairman was \$187,223 per annum including superannuation and is now \$82,125. Base fees for other non-executive directors were \$93,611 per annum including superannuation but are now \$82,125. The Chairs of each of the committees receive an additional annual fee of \$10,950 inclusive of superannuation.

Non-executive directors do not receive performance-related remuneration. Non-executive directors are not entitled to any additional remuneration upon retirement. Out-of-pocket expenses are reimbursed to directors upon the production of proper documentation.

Name	Year	Salary and fees	Superannuation	Total
Warren McLeland	2020	45,115	4,286	49,401
	2019	-	-	-
Kent Bird	2020	47,731	4,534	52,265
	2019	-	-	-
Paul Oneile	2020	36,173	3,436	39,609
	2019	-	-	-
Allan Sullivan	2020	42,115	4,001	46,116
	2019	-	-	-
David Foster	2020	100,615	9,558	110,173
	2019	170,980	16,243	187,223
Stephen Kulmar	2020	42,236	4,187	46,423
	2019	95,490	9,072	104,562
Andrew Stevens	2020	67,210	6,385	73,595
	2019	95,490	9,072	104,562
Belinda Gibson	2020	67,210	6,385	73,595
	2019	95,490	9,072	104,562
Joycelyn Morton	2020	-	-	-
	2019	16,112	1,531	17,643
Total Non-Executive Director Remuneration	2020	448,405	42,772	491,177
	2019	473,562	44,990	518,552

DIRECTORS' REPORT

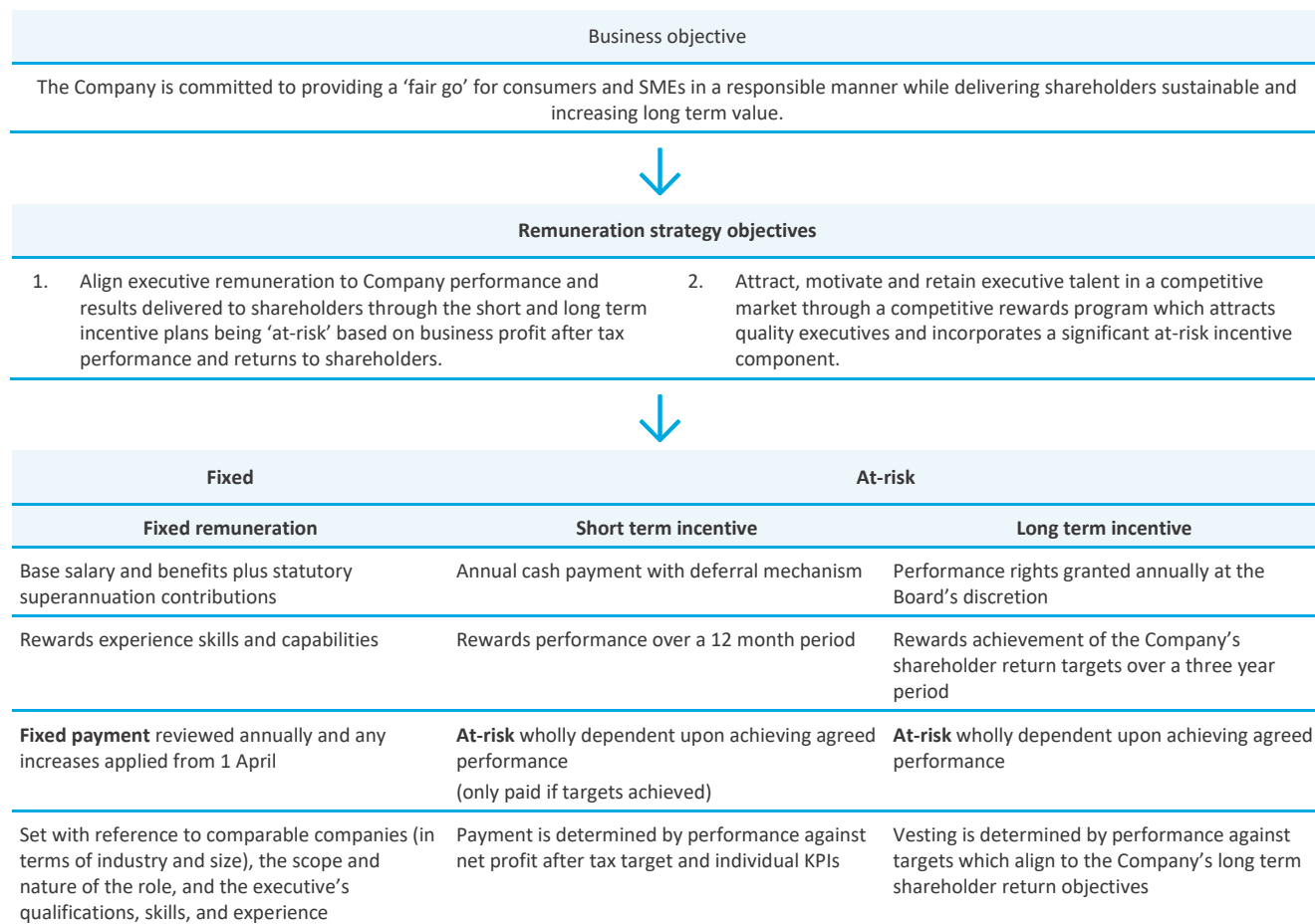
For the year ended 31 March 2020

4. EXECUTIVE KMP REMUNERATION - AUDITED

The Company's approach to remuneration is framed by the strategy and operational demands of the business, the desire for superior sustained shareholder returns, the complex and onerous regulatory environment and high standards of governance.

The remuneration structure has been designed to balance both shareholder and executive interests. It consists of a mix of fixed and 'at-risk' pay where the at-risk element seeks to balance both short and long term performance.

The diagram below illustrates the link between the business' objective and executive KMP remuneration.



Future remuneration intentions

The above described remuneration framework for both short and long term incentives is presently under review.

DIRECTORS' REPORT

For the year ended 31 March 2020

Summary of executive KMP remuneration outcomes on a statutory basis – audited

Name	Year	Salary	Termination	STI	Other remuneration	Superannuation	Long Service Leave	LTI	Total
Executive KMP									
Pete Lirantzis	2020	111,588	-	-	-	6,717	-	-	118,305
	2019	-	-	-	-	-	-	-	-
Peter Forsberg	2020	424,958	-	-	215,000	20,885	-	136,657	797,500
	2019	424,967	-	-	110,000	20,411	-	180,358	735,736
Alexandra Rose	2020	130,731	-	-	-	10,435	-	-	141,166
	2019	-	-	-	-	-	-	-	-
Former KMP's									
Tim Luce	2020	680,973	-	-	-	20,885	-	(332,184)	369,674
	2019	704,580	-	181,250	-	20,411	-	736,226	1,642,467
Wendy Yip	2020	249,727	-	-	46,376	15,634	-	(53,157)	258,580
	2019	329,580	-	-	60,000	20,411	-	115,488	525,479
David Lines	2020	149,239	-	-	2,612	10,384	-	(58,737)	103,498
	2019	329,580	-	-	60,000	20,411	-	102,249	512,240
Total KMP	2020	1,747,216	-	-	263,988	84,940	-	(307,421)	1,788,723
Remuneration	2019	1,788,707	-	181,250	230,000	81,644	-	1,134,321	3,415,922

- a) Other remuneration represents retention and capital raising incentive payments
- b) The LTI column represents the accounting charge recognised in the Company's profit and loss account in respect of the long term incentive plan, and also include retention payments settled in equity. The charge reflects the fair value of the performance rights calculated at the date of grant using a Monte Carlo simulation model and allocated to each reporting period over the period from grant date to the expected vesting date. The value disclosed is the portion of the fair value of the performance rights allocated to this reporting period. Where grants lapse due to the failure or anticipated failure to achieve non-market condition hurdles then the expense previously recognised can be reversed and result in a negative entry in this column.

Retention payments

The KMP, with the exception of Mr Luce, received no pay rise or short term incentive in 2019 or 2020. The Board in place at the beginning of the financial year recognised that retaining the services of several of its key executives was essential to the ongoing success of the Group and accordingly retention payment arrangements were paid in the year to 31 March 2020 to Mr Forsberg, Ms Yip and Mr Lines as set out in the table above. The new Board has put no such arrangements in place.

Remuneration mix

The table below represents the target remuneration mix for group executives in the current year:

	Fixed remuneration	At risk	
		Short term incentive	Long term incentive
KMP	50%	25%	25%

DIRECTORS' REPORT

For the year ended 31 March 2020

Fixed remuneration

Fixed remuneration consists of a base salary and benefits plus statutory superannuation contributions. The fixed remuneration is set with reference to the market, the scope and nature of the role, and the executive's qualifications, skills, performance and experience. In certain cases, the Board may determine that it is appropriate to stretch fixed annual compensation in order to attract critical talent where necessary.

Fixed remuneration is reviewed annually and any increase applied from 1 April. The Board may also approve adjustments during the year as recommended by the CEO such as those arising from promotion or the undertaking of additional duties.

Short term incentive

The short term incentive ("STI") is an annual cash payment subject to achieving performance criteria based both on financial and non-financial key performance indicators. There is a target level of payment with an additional stretch component available for out-performance. The Board has discretion in all matters. The below described remuneration framework is presently under review.

Features	Description										
Purpose	To motivate executives to achieve the short term performance targets.										
Opportunity	<table><thead><tr><th></th><th>Target (as % of Fixed)</th><th>Maximum (as % of Fixed)</th></tr></thead><tbody><tr><td>KMP</td><td>50%</td><td>100%</td></tr></tbody></table>		Target (as % of Fixed)	Maximum (as % of Fixed)	KMP	50%	100%				
	Target (as % of Fixed)	Maximum (as % of Fixed)									
KMP	50%	100%									
Performance Period	12 months										
Gateway and performance metrics	<p>The STI is subject to a Net Profit After Tax 'NPAT' gateway below which no STI payments are made. The maximum STI that can be earned is based on NPAT against budget as follows:</p> <table><thead><tr><th>Company NPAT against budget</th><th>STI that can be earned</th></tr></thead><tbody><tr><td><85%</td><td>0%</td></tr><tr><td>85%</td><td>42.5%</td></tr><tr><td>100%</td><td>50%</td></tr><tr><td>110%</td><td>100%</td></tr></tbody></table> <p>60% of the STI that can be earned (detailed in the table above) is eligible for payment as it is based upon the financial performance against budgeted PAT with the remaining 40% dependent upon the individual's performance against their personal KPIs.</p> <p>The personal KPIs are individual to the executive's position and capacity to influence, pre-agreed with the Board, and relate to strategically important initiatives and measures for customer satisfaction, systems, risk and staff development.</p>	Company NPAT against budget	STI that can be earned	<85%	0%	85%	42.5%	100%	50%	110%	100%
Company NPAT against budget	STI that can be earned										
<85%	0%										
85%	42.5%										
100%	50%										
110%	100%										
Assessment, approval and payment	<p>At the end of the financial year, the Remuneration & Nomination Committee assesses actual financial performance based on the Company's audited financial statements, and each executive's performance against their personal KPIs to determine the value of each executive's STI reward.</p> <p>The Board has 100% discretion with the STI outcome including the exercising of judgement with regard to any matter, both positive and negative, that may have occurred during the financial period and to adjust the levels of achievement accordingly.</p> <p>Once approved, the STI rewards are paid in the month following the release of the Company's results to the ASX.</p>										
Deferral	<p>A deferral mechanism is in place whereby 30% of the awarded STI is deferred for one year and subject to forfeiture under two conditions only, first should a material misstatement or omission in the financial statements become apparent, or second the executive acts in a manner unbecoming of the office held.</p> <p>The deferred portion is subject to an election by the KMP as to its method of payment. It can be paid in cash one year later, subject to the restrictions stated, and will earn interest at a suitable deposit rate for that period, or it can be converted into performance share rights at a VWAP for the 5 days prior to the payment date of the initial tranche and receive an uplift by a dividend equivalent for any dividends declared during the deferral period. The performance rights will then be converted to shares on the due date and awarded to the KMP.</p>										

DIRECTORS' REPORT

For the year ended 31 March 2020

STI OUTCOMES FOR 2020 - AUDITED

The Company reported a loss after tax which did not meet the hurdle and accordingly no STI's were awarded.

STI for 2019-20	Target \$	Earned %	Earned \$	Forfeited %	Forfeited \$
Pete Lirantzis*	-	-	-	-	-
Peter Forsberg	222,500	0%	-	100%	222,500
Alexandra Rose*	-	-	-	-	-
Tim Luce	362,500	0%	-	100%	362,500
Wendy Yip	165,000	0%	-	100%	165,000
David Lines	165,000	0%	-	100%	165,000
Total	915,000	0%	-	100%	915,000

Pete Lirantzis and Alexandra Rose commenced employment during the year and were not eligible to participate in the FY20 STI scheme.

Long Term Incentive (LTI)

The Long Term Incentive is an annual performance rights plan to which executive KMP are invited to participate at the Board's discretion. The below described remuneration framework is presently under review.

The Company currently has three active LTI plans running which share the same method but differ slightly in their hurdles and vesting criteria detailed in the table below. All of the plans were granted in the form of performance rights directly linked to the performance of the Company, the returns generated, and relative increases in shareholder wealth. This structure was used to ensure appropriate alignment to shareholder value over a specified timeframe.

The following table sets out the key features of the plans with specific references to each of the 2017, 2018 and 2019 plans where they differ.

Features	Description																				
Instrument	Performance rights being a right to receive a share subject to performance and vesting conditions.																				
Purpose	To motivate executives to achieve the long term performance targets.																				
Opportunity	50% of fixed remuneration The number of performance rights issued is determined by dividing the dollar opportunity by the prevailing share price of the Company at the date of issue.																				
Dividends or share issues	No dividends are paid or accrued on unvested awards.																				
Performance criteria	<p>The plans use a Relative Total Shareholder Return ("RTSR") performance hurdle and an Earnings Per Share ("EPS") hurdle in equal measure. The company's Relative Total Shareholder Return performance is measured against a comparator group of ASX listed companies (available on the website at www.thorn.com.au). RTSR was selected as an objective indicator of shareholder wealth criterion as it includes share price growth, dividends and other capital adjustments.</p> <table border="1"> <thead> <tr> <th>Thorn Group Limited's TSR Ranking July 2017, July 2018 and July 2019 Grants</th> <th>Percentage of Performance Rights subject to TSR condition that qualify for vesting</th> </tr> </thead> <tbody> <tr> <td>< 50th percentile</td> <td>0%</td> </tr> <tr> <td>50th percentile</td> <td>50%</td> </tr> <tr> <td>50th to 75th percentile</td> <td>Assessed on a straight line basis</td> </tr> <tr> <td>75th percentile or greater</td> <td>100%</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Thorn Group Limited's EPS Hurdle July 2017, July 2018 and July 2019 Grants</th> <th>Percentage of Performance Rights subject to EPS condition that qualify for vesting</th> </tr> </thead> <tbody> <tr> <td>< 5% compound annual growth rate</td> <td>0%</td> </tr> <tr> <td>5%</td> <td>50%</td> </tr> <tr> <td>>5% to <10%</td> <td>Assessed on straight line basis</td> </tr> <tr> <td>= or > 10% CAGR</td> <td>100%</td> </tr> </tbody> </table>	Thorn Group Limited's TSR Ranking July 2017, July 2018 and July 2019 Grants	Percentage of Performance Rights subject to TSR condition that qualify for vesting	< 50 th percentile	0%	50 th percentile	50%	50 th to 75 th percentile	Assessed on a straight line basis	75 th percentile or greater	100%	Thorn Group Limited's EPS Hurdle July 2017, July 2018 and July 2019 Grants	Percentage of Performance Rights subject to EPS condition that qualify for vesting	< 5% compound annual growth rate	0%	5%	50%	>5% to <10%	Assessed on straight line basis	= or > 10% CAGR	100%
Thorn Group Limited's TSR Ranking July 2017, July 2018 and July 2019 Grants	Percentage of Performance Rights subject to TSR condition that qualify for vesting																				
< 50 th percentile	0%																				
50 th percentile	50%																				
50 th to 75 th percentile	Assessed on a straight line basis																				
75 th percentile or greater	100%																				
Thorn Group Limited's EPS Hurdle July 2017, July 2018 and July 2019 Grants	Percentage of Performance Rights subject to EPS condition that qualify for vesting																				
< 5% compound annual growth rate	0%																				
5%	50%																				
>5% to <10%	Assessed on straight line basis																				
= or > 10% CAGR	100%																				
Performance period and vesting dates	<ul style="list-style-type: none"> July 2017: 3 years (1 July 2017 to 30 June 2020). Vesting date is 1 September 2020. July 2018: 3 years (1 July 2018 to 30 June 2021). Vesting date is 1 September 2021. July 2019: 3 years (1 July 2019 to 30 June 2022). Vesting date is 1 September 2022. 																				

DIRECTORS' REPORT

For the year ended 31 March 2020

Features	Description
Assessment, approval and payment	At the end of each performance period, the Remuneration & Nomination Committee assesses the relevant performance measures and determines the extent to which the awards should vest. Payment is made by the issuing or transfer of shares.
Change of control	If a change of control occurs prior to the vesting of an award, then the Board may determine in its absolute discretion whether all or some of a participant's unvested award vest, lapse, is forfeited, or continues.
Termination	Unvested performance rights will lapse if performance conditions are not met. Performance rights will be forfeited on cessation of employment unless the Board determines at its absolute discretion otherwise.
Claw back provisions	There are no specific provisions providing the capacity to clawback a component of remuneration in the event of a matter of significant concern.

Calculation of the value of performance rights in the remuneration tables

The value of performance rights issued to executives and included in the remuneration tables is a mathematical model calculation designed to show an intrinsic value. This is necessary to show the benefit attributable to the KMP in the year of issue but before that benefit is actually received by the KMP.

The number of performance rights to be issued is derived from the relevant percentage of the executive's fixed remuneration at the time of the grant divided by the share price at that time. This number of performance rights is then input into a Monte Carlo simulation model by an independent expert and which works out the intrinsic value of the performance rights using the expected volatility of the shares, the time period to testing date, and a number of other monetary factors as set out in the table below.

The end result is an intrinsic value for each of the performance rights which is recorded in the books of the Company by allocating the expense to each reporting period evenly over the period from grant date to the vesting date.

The table below outlines the factors and assumptions used in determining the fair value of performance rights at grant date.

Grant date	Initial Test date	Expiry Date	Fair Value Per Performance Right	Exercise Price	Price of Shares on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
1 July 2017	1 September 2020	31 October 2020	\$1.00	Nil	\$1.42	37.0%	1.9%	5.3%
1 July 2018	1 September 2021	31 October 2021	\$0.46	Nil	\$0.60	44.0%	2.1%	2.8%
1 July 2019	1 September 2022	31 October 2022	\$0.26	Nil	\$0.31	46.0%	1.0%	0.0%

Long term incentive outcomes for FY20

The 2016 plan was tested at 1 June 2019, failed the performance criteria, and all performance rights attaching to it lapsed.

Performance rights granted as compensation in the year

	Performance Rights Granted		Financial Year in which Grants Vest (ended 31 March)	Values Yet to Vest \$	
	Number	Date		Min (a)	Max (b)
Peter Forsberg	765,535	1 July 2019	2023	Nil	-
Wendy Yip	601,581	1 July 2019	N/A	N/A	N/A
David Lines	601,581	1 July 2019	N/A	N/A	N/A

Nb. Wendy Yip and David Lines resigned during the year and under the LTI arrangements forfeited their award

- The minimum value of the performance rights to vest is nil as the performance rights criteria may not be met and consequently the performance rights may not vest.
- The maximum value of the performance rights yet to vest is not accurately determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the performance rights are exercised. The share price as at 31 March 2020 was \$0.05.

DIRECTORS' REPORT

For the year ended 31 March 2020

5. ALIGNMENT BETWEEN REMUNERATION AND PERFORMANCE – AUDITED

In considering the consolidated entity's performance and benefits for shareholders' wealth, the board of directors has regard to the following indices in respect of the current financial year and the four previous financial years.

Year ending 31 March	2020	2019	2018	2017	2016
Profit After Tax (AUD millions)	(81.1)	(14.9)	(2.2)	25.3	20.1
Earnings per share (cents)	(33.7)	(9.3)	(1.4)	16.2	13.1
Dividends per share (cents)	0.0	0.0	1.0	8.0	11.5
Share price at year end (\$)	0.05	0.46	0.62	1.31	1.82
Return on capital employed %	n/a	n/a	n/a	11.0	11.1
Return on equity %	n/a	n/a	n/a	12.4	10.4

Return on capital employed is calculated as EBIT divided by average capital employed (net debt plus book equity). Return on equity is calculated as NPAT divided by the average book equity.

6. SERVICE CONTRACTS FOR EXECUTIVE KMP - AUDITED

The present contractual arrangements with executive KMPs are:

Component	CEO	Senior executives
Contract duration	Ongoing	Ongoing
Notice by individual or company	6 months	Range between 3 and 6 months
Termination without cause	Entitlement to pro-rata STI for the year. Unvested LTI is forfeited unless the board decide at its absolute discretion otherwise. Board has discretion to award a greater or lesser amount.	
Termination with cause	STI is not awarded and all unvested LTI will lapse Vested and exercised LTI can be exercised within a period of 30 days from termination	

7. OTHER STATUTORY DISCLOSURES - AUDITED

LTI and Other performance rights available for vesting

Details of the LTI and other performance rights available for vesting are detailed below:

	Initial Grant			Financial Years in Which Grant Vests (ending 31 March)	Remaining Unvested	Values Yet to Vest \$		2020 Movements on original grant		
	Type	Number	Date			Number	Min (a)	Max (b)	Vested	Forfeited
Peter Forsberg	LTI*	233,476	1 July 2017	2021	233,476	Nil	-	-	-	100%
	LTI	361,928	1 July 2018	2022	361,928	Nil	-	-	-	100%
	LTI	765,535	1 July 2019	2023	765,535	Nil	-	-	-	100%

- The minimum value of the performance rights to vest is nil as the performance rights criteria may not be met and consequently the performance rights may not vest.
- The maximum value of the performance rights yet to vest is not accurately determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the performance rights are exercised. However, for the purposes of this disclosure as the value of the shares at vesting date is not known, the maximum has not been disclosed and shown as '-'.
* Management have determined that the EPS hurdle of this tranche may not be met.

Alexandra Rose joined during the year and hence has not participated in any LTI plan at the date of this report.

Performance rights over equity instruments granted

The movement during the year in the number of performance rights over ordinary shares in Thorn Group Limited held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

DIRECTORS' REPORT

For the year ended 31 March 2020

	Held at 1 April 2019	Granted as Compensation	Vested during the year	Lapsed	Forfeited	Held at 31 March 2020
Tim Luce	1,187,947	-	-	-	(1,187,949)	-
Peter Forsberg	738,750	765,535	-	(143,346)	-	1,360,939
Wendy Yip	526,286	601,581	-	(115,180)	(1,012,687)	-
David Lines	411,106	601,581	-	-	(1,012,687)	-

Shareholdings of the directors and executive KMP

2020 Name	Balance at the start of the year	Received on vesting of incentives	Other changes (bought and sold)	Balance at the end of the year
Warren McLeland	-	-	-	-
Kent Bird	-	-	133,186	133,186
Paul Oneile	-	-	-	-
Allan Sullivan	-	-	205,999	205,999
Pete Lirantzis*	-	-	-	-
Peter Forsberg	333,855	-	333,855	667,710
Alexandra Rose	-	-	-	-
David Foster	60,270	-	(60,270)	-
Belinda Gibson	20,000	-	(20,000)	-
Andrew Stevens	15,720	-	(15,720)	-
Stephen Kulmar	68,000	-	68,000	136,000
Joycelyn Morton	95,119	-	-	95,119
Tim Luce	646,460	-	690,460	1,336,920
Wendy Yip	183,913	-	10,000	193,913
David Lines	173,913	-	-	173,913

*Pete Lirantzis was granted 464,253 shares, effective 22 May 2020, subject to a 2 year service period as part of his remuneration package under the terms of his employment contract.

Other transactions with Directors or Executive KMP

There were no loans made or outstanding to Directors or executive KMP during or at the end of the year.

A director, Stephen Kulmar, is the founder of the retail consultancy Retail Oasis, which had the Company as one of its clients. During the year there were no engagements nor fees billed. Accordingly Mr Kulmar is considered an independent director.

UNISSUED SHARES UNDER OPTIONS

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

NON-AUDIT SERVICES

PwC performed certain other services in addition to their statutory duties. The Board based on advice from the Audit Committee has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company to ensure they do not impact the integrity and objectivity of the auditor;
- the non-audit services provided do not undermine the general principles relating to auditor independence; and
- as set out in APES110 Code of Ethics for Professional Accountants, they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the consolidated entity, PwC, and its related practices for audit and non-audit services provided during the year are set out in note 24.

DIRECTORS' REPORT

For the year ended 31 March 2020

ROUNDING OF FINANCIAL AMOUNTS

The Company is of a kind referred to in ASIC Instrument 2016/191 issued by the Australian Securities & Investments Commission and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

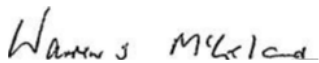
CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year and can be referred to on Thorn Group website <http://www.thorn.com.au/irm/content/corporate-governance.aspx?RID=303>.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration is set out on page 23 and forms part of the directors' report for financial year ended 31 March 2020.

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



Warren McLeland
Chairman

Dated at Sydney
29 May 2020



Auditor's Independence Declaration

As lead auditor for the audit of Thorn Group Limited for the year ended 31 March 2020, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'M. Laithwaite'.

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
29 May 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

\$'000 AUD	Notes	2020	2019 Restated*
Continuing operations			
Sales revenue		74,873	78,512
Interest revenue		120,099	128,211
Other revenue		9,327	15,134
Revenue		204,299	221,857
Finance lease cost of sales		(59,993)	(66,695)
Employee benefit expense		(48,194)	(53,268)
Impairment losses on loans and receivables	12	(88,893)	(47,852)
Marketing expenses		(8,499)	(9,220)
Property expenses		(5,266)	(10,666)
Transport expenses		(3,252)	(5,519)
Communication & IT expenses		(6,240)	(7,502)
Printing, stationary and postage		(1,429)	(2,051)
Travel expenses		(772)	(1,127)
Other expenses		(15,964)	(12,663)
Depreciation & amortisation		-	(3,248)
Impairment of intangibles & PP&E	7,8	(1,925)	(9,977)
Class action settlement and related expenses		(25,944)	(1,905)
Total operating expenses		(266,371)	(231,693)
Earnings before interest and tax ("EBIT")		(62,072)	(9,836)
Finance expenses		(16,253)	(15,392)
(Loss)/Profit before income tax		(78,324)	(25,228)
Income tax	9	(2,744)	7,081
(Loss)/profit after tax from continuing operations		(81,068)	(18,147)
Profit from discontinued operations, net of tax	21	-	3,182
(Loss)/profit after tax for the year		(81,068)	(14,965)
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Other comprehensive income		(2,996)	(2,784)
Income tax		(998)	835
Other comprehensive income for the year		(3,994)	(1,949)
Total comprehensive loss		(85,062)	(16,914)
Earnings per share - continuing operations			
Basic earnings per share (cents)	16	(33.7)	(11.3)
Diluted earnings per share (cents)	16	(33.7)	(11.3)
Earnings per share			
Basic earnings per share (cents)	16	(33.7)	(9.3)
Diluted earnings per share (cents)	16	(33.7)	(9.3)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

* Restated to correct a prior period error in respect of tax balances. For further details see note 10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

\$'000 AUD	Note	2020	2019 Restated
Assets			
Current assets			
Cash and cash equivalents	4	49,619	30,627
Trade and other receivables	5	129,297	167,847
Prepayments and other assets		2,895	4,352
Inventories	3	7,975	13,638
Income tax receivable		3,051	4,213
Total current assets		192,838	220,677
Non-current assets			
Trade and other receivables	5	260,546	289,547
Deferred tax assets	10	-	-
Property, plant and equipment	8	-	-
Right of use asset	7	-	-
Intangible assets	7	-	-
Total non-current assets		260,546	289,547
Total assets		453,383	510,224
Liabilities			
Current liabilities			
Trade payables		8,475	10,764
Lease liability	6	6,142	-
Other payables		6,514	13,974
Loans and borrowings	14	117,918	122,490
Employee benefits		4,641	4,777
Provisions	13	3,929	2,767
Total current liabilities		147,619	154,772
Non-current liabilities			
Loans and borrowings	14	187,627	181,154
Lease liability	6	5,578	-
Deferred tax liabilities	10	-	1,100
Employee benefits		462	518
Derivative financial instruments	11	6,322	3,326
Provisions	13	-	1,035
Total non-current liabilities		199,989	187,133
Total liabilities		347,609	341,905
Net assets		105,775	168,319
Equity			
Issued capital	15	155,255	120,932
Reserves	15	(5,912)	(1,424)
Retained earnings		(43,569)	48,811
Total equity		105,775	168,319

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

* Restated to correct a prior period error in respect of tax balances. For further details see note 10

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

\$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2018	119,951	181	79,543	199,675
Correction of error*	-	-	(3,696)	(3,696)
Changes on initial application of AASB 9	-	-	(12,071)	(12,071)
Restated total equity at 1 April 2018	119,951	181	63,776	183,908
Total comprehensive income				
Net loss for the period	-	-	(14,965)	(14,965)
Other comprehensive income	-	(1,949)	-	(1,949)
Total comprehensive income	-	(1,949)	(14,965)	(16,914)
Transactions with owners of the company				
Issue of shares under dividend reinvestment plan	-	-	-	-
Share based payments transactions	981	344	-	1,325
Dividends to shareholders	-	-	-	-
Total transactions with owners of the company	981	344	-	1,325
Balance at 31 March 2019	120,932	(1,424)	48,811	168,319

\$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity
Balance at 1 April 2019	120,932	(1,424)	48,811	168,319
Changes on initial application of AASB 16 (see note 1(h))	-	-	(11,460)	(11,460)
Restated total equity at 1 April 2019	120,932	(1,424)	37,351	156,859
Total comprehensive income				
Net loss for the period	-	-	(81,068)	(81,068)
Other comprehensive income	-	(3,994)	-	(3,994)
Total comprehensive income	-	(3,994)	(81,068)	(85,062)
Transactions with owners of the company				
Issue of shares under capital raising	34,323	-	-	34,323
Issue of shares under dividend reinvestment plan	-	-	-	-
Share based payments transactions	-	(494)	148	(347)
Dividends to shareholders	-	-	-	-
Total transactions with owners of the company	34,323	(494)	148	33,977
Balance at 31 March 2020	155,255	(5,912)	(43,569)	105,755

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

* Restated to correct a prior period error in respect of tax balances. For further details see note 10

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

\$'000 AUD	2020	2019
Cash flows from operating activities		
Cash receipts from customers (excluding interest)	243,947	246,117
Interest revenue received	117,525	123,037
Cash paid to suppliers and employees*	(138,598)	(134,028)
Acquisition of inventories	(61,273)	(70,825)
Equipment finance originations	(155,784)	(155,447)
Cash generated from operations	5,816	8,854
Net borrowing costs	(16,117)	(15,168)
Income tax refund / (paid)	1,145	(6,563)
Net cash used in operating activities	(9,156)	(12,877)
Cash flows from investing activities		
Acquisition of property, plant and equipment and software	(809)	(4,060)
Net cash from investing activities	(809)	(4,060)
Cash flows from financing activities		
Proceeds from borrowings	154,458	192,898
Repayment of borrowings	(152,557)	(173,561)
Repayment of lease liability	(7,267)	-
Proceeds from issues of shares	34,323	-
Dividends paid	-	-
Net cash from financing activities	28,958	19,337
Net increase in cash and cash equivalents	18,992	2,400
Cash and cash equivalents at April 1	30,627	28,227
Cash and cash equivalents at 31 March	49,619	30,627

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

*Includes \$25m class action settlement and associated legal costs settled during the current year.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

Reconciliation of cash flows from operating activities

\$'000 AUD	2020	2019
Loss after tax	(81,068)	(14,965)
Adjustments for:		
Depreciation, amortisation, asset and goodwill impairment	1,905	13,225
Equity settled transactions	(346)	1,326
Other adjustments	5,435	(3,696)
Operating loss before changes in working capital and provisions	(74,074)	(4,110)
Changes in working capital and provisions, net of the effects of the sale of subsidiaries		
Decrease in trade and other receivables	67,551	14,389
(Increase)/decrease in prepayments and other assets	1,457	(1,184)
(Increase)/decrease in inventories	5,663	(2,262)
(Decrease)/increase in deferred tax liability	(1,100)	(5,312)
Decrease)/(increase) in income tax receivables	1,163	(4,620)
(Decrease) in trade and other payables	(9,750)	(5,397)
(Decrease)/increase in provisions and employee benefits	(64)	(4,381)
Net cash from operating activities	(9,156)	(12,877)

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES

Thorn Group Limited (the 'Company') is a for profit company domiciled in Australia. The address of the Company's registered office is Level 1, 62 Hume Highway, Chullora, NSW, 2190. The consolidated financial statements of the Company as at and for the financial year ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as the 'Group' or 'consolidated entity'). Thorn is a diversified financial services group providing the leasing of household products to consumers, and commercial asset finance to small and medium size enterprises.

(a) Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ('IFRSs') adopted by the International Accounting Standards Board ('IASB').

The consolidated financial statements were approved by the Board of Directors on 29 May 2020.

(b) Basis of Preparation

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The Company is of a kind referred to in ASIC Instrument 2016/191 issued by the Australian Securities & Investments Commission and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include the following:

- (i) Valuation and impairment of goodwill and other intangibles. See note 7; and
- (ii) Determination of expected credit losses of receivables. See note 12.
- (iii) Net realisable value of inventory. See note 3.

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if:

- (i) The amount is significant because of its size or nature;
- (ii) It is important for understanding the results of the Group or changes in the Group's business; and
- (iii) It relates to an aspect of the Group's operations that is important to its future operations.

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Consolidated Financial Statements.

The estimation uncertainty is associated with:

- (i) the extent and duration of the disruption to businesses arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- (ii) the extent and duration of the expected economic downturn. This includes the disruption to capital markets, deteriorating availability of credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- (iii) the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed expected credit loss estimates in these Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

The impact of the COVID-19 pandemic on the Group's expected credit loss estimates is disclosed and further explained in note 12 to the financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

Financing and going concern basis for the financial report

The Group incurred a net loss after tax of \$81.1m (2019: \$15.0m loss) for the year ended 31 March 2020 and net cash used in operating activities during the same period amounted to a \$9.2m (2018: \$12.9m) out flow.

It should also be noted that the net operating cash outflow includes outflows of \$61.2m for inventory of household goods assets used to seed Radio Rentals consumer leases and \$155.8m for originations in Business Finance.

The Group provides financing to both consumers and small and medium size enterprises across a range of industries, many of which have been impacted by COVID-19. At the date of this report approximately 30% of the Group's SME customers by value (by comparison to the total value at March 31 2020) have requested a payment holiday. Thorn continues to be in discussion with the senior and mezzanine note holders in the securitised warehouse regarding relief options.

Subsequent to the year end, the securitised warehouse fell into breach of one of its warehouse parameters as a result of customers affected by COVID-19 progressively going into arrears. That breach while it subsists puts the warehouse into amortisation. Discussions are continuing with the note holders to waive or remedy that breach.

Thorn's Radio Rentals division has been affected by COVID-19 with the Group announcing the temporary closure of its store network for safety reasons (subsequent to the yearend), and then a permanent closure of the Radio Rentals stores and warehouses and moving the business completely online. These closures are expected to result in redundancies for approximately 300 casual and full time staff across the Group.

The core of the Radio Rentals business will continue to operate and will be leveraged to develop a new digital business model. Thorn has introduced new credit policies and collection processes as well as cutting costs across all divisions to seek to ensure the business model remains sustainable into the future.

The cost reductions underway, the tightening of Business Finance originations and the collecting on the Radio Rentals receivables book will all be cash positive for the Group.

The continuing viability of the Group and its ability to continue as a going concern are dependent upon the Group returning to profitability through:

- (i) satisfactorily progressing various cost saving initiatives
- (ii) resolving present financing difficulties so as to be able to revitalise Business Finance; and
- (iii) successfully progressing the Radio Rentals digital strategy.

Considering all the above, and acknowledging that corporate actions and discussions with current or proposed lenders always contain some risk and uncertainty, the directors have reviewed the Group's cash flow forecast and, in the directors' opinion, there are reasonable grounds to believe that the collecting on the Radio Rentals book will provide sufficient incoming cash flow to ensure the Group will be able to meet its obligations and accordingly continue as a going concern.

While the directors are of the opinion expressed above, the resolution of funding for the Business Finance division and the launch of Radio Rentals online business are not guaranteed and accordingly a material uncertainty exists that may cast significant doubt as to whether Thorn will be able to continue as a going concern and therefore whether Thorn will be able to realise its assets and discharge its liabilities in the normal course of business and for the amounts recorded in this report.

(c) Accounting Policies

Accounting policies have been included within the underlying notes with which they relate where possible. The balance of accounting policies are detailed below:

(d) Inventories

Inventories represent purchased consumer goods held in stores. The costs of individual items of inventory are determined using weighted average costs less volume rebates received. Inventory is valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(e) Revenue

The major components of revenue are recognised as follows:

- (i) Finance lease sales revenue is recognised at the time the rental contract is entered into based on the fair value of the leased item, or if lower, the present value of the lease payments discounted using a market rate of interest.
- (ii) Interest revenue is calculated and charged on the outstanding loan or lease balance and recognised on an accrual basis using the effective and implicit interest rate method respectively.
- (iii) Other revenue includes late fees, establishment fees, termination fees and other non-lease related income.

(f) Cost of Sales

Finance lease costs of sales comprise the cost of the item sold as well as other costs associated with the transaction such as incentives offered to customers.

(g) Finance expenses

Finance expenses comprise interest expense on lease liabilities, interest expense on borrowings, interest rate hedge costs and the amortisation of deferred borrowing costs. All borrowing costs are recognised in the profit or loss using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

(h) Impairment

Non-Financial Assets

In accordance with AASB 136 the carrying amounts of the consolidated entity's assets within the scope of the standard, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the recoverable amount the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating units"). The assets acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(j) Changes in Accounting Policy

All new Accounting Standards and Interpretations applicable to annual reporting periods commencing on or before 1 April 2019 have been applied to the consolidated entity effective from their required date of application. Note 1(k) explains the impact of AASB 16 Leases on the Group's financial statements.

(k) New Standards and Interpretations Adopted

This note explains the impact of the adoption of AASB 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019. AASB 16 replaces existing leases guidance, including AASB 117 Leases.

The Group has adopted AASB 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

The Group's leasing activities (as a lessor) and accounting under AASB 16

There has been no change to the group's accounting for its leases as a lessor. See note 5 and 6 for more information on these activities.

The Group's leasing activities (as a lessee) and accounting under AASB 16

The Group leases offices, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 2 to 5 years and may have extension options. Lease terms are negotiated on an individual basis and can contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 March 2019, leases of property, equipment and cars were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is typically then depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the asset is considered to be impaired (see below).

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; or
- variable lease payments that are based on an index or a rate.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received.

Payments associated with short-term leases under 12 months term and leases of low-value assets under \$10,000 are recognised on a straight-line basis as an expense in profit or loss.

Initial adoption accounting

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.8%.

\$'000 AUD	1 April 2019
Operating lease commitments disclosed as at 31 March 2019	19,683
Less: discount using the lessee's incremental borrowing rate of 4.8% at the date of initial application	(1,176)
Less: short-term leases recognised on a straight-line basis as expense	(2,548)
Less: low-value leases recognised on a straight-line basis as expense	(185)
Add: adjustments as a result of a different treatment of extension and termination options	983
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	624
Lease liability recognised as at 1 April 2019	17,381

Of the \$17.2m balance, \$6.5m was classified as current at 1 April 2019 and \$10.7m as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

The associated right-of-use assets for property, vehicle and equipment leases were measured on a retrospective basis as if the requirements of AASB 16 had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets at 1 April 2019.

\$'000 AUD	Asset	Impairment	Carrying value
Properties	11,164	(11,164)	-
Vehicles	4,924	(4,924)	-
Printers	267	(267)	-
	16,355	(16,355)	-

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Right of use assets - increased by \$16.4m;
- Trade payables - decreased by \$1.1m; and
- Lease liabilities - increased by \$17.4m.

Impairment tests for Cash Generating Units (CGU)

At 31 March 2019, testing using a fair value less cost of disposal model revealed the carrying amount of the Consumer Leasing CGU exceeded its recoverable amount. An impairment charge for the total value of the intangibles and fixed assets of the CGU of \$10.0m was recognised in the income statement for the year ended 31 March 2019.

The key assumptions used in the estimation of recoverable amount were 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 4.6%. Volume related costs were projected to increase with volume during the testing period. Other costs were either increased by CPI or by contracted arrangements, or where reasonable kept flat with productivity savings assumption. The post-tax discount rate was assumed at 9.5% (2019: 9.5% post-tax).

As a result, the right of use asset created on the adoption of AASB 16 on 1 April 2019 was deemed to be fully impaired. As this was part of the initial application entries for AASB 16 the impairment was processed through retained earnings in accordance with the transition provisions noted above. The accounting entries were as follows

- Right of use assets – decreased by \$16.4m
- Deferred tax – increased by \$5.2m
- Retained earnings – decreased by \$11.1m

See note 7 for further details on impairment testing in the current year. All intangibles continue to be impaired.

Practical expedients applied

In applying AASB16 the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the accounting for operating leases with a value of \$10,000 or less as at 1 April 2019 as low value leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Those same expedients, where relevant, continue to be applied and have been applied for any new leases entered into during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

2. SEGMENT REPORTING

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

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

2020 \$'000 AUD	Consumer Leasing	Equipment Finance	Corporate	Discontinued operations	Consolidated
Sales Revenue	74,873	-	-	-	74,873
Interest Revenue	79,394	40,705	-	-	120,099
Other	8,169	1,158	-	-	9,327
Total Segment revenue	162,436	41,863	-	-	204,229
Operating expenses	(168,738)	(60,900)	(34,808)	-	(264,446)
EBITDA	(6,302)	(19,037)	(34,808)	-	(60,147)
Depreciation and amortisation	-	-	-	-	-
Impairment	(1,665)	(62)	(198)	-	(1,925)
EBIT	(7,967)	(19,099)	(35,006)	-	(62,071)
Finance expense	(1,744)	(14,509)	-	-	(16,253)
Profit before tax	(9,710)	(33,608)	(35,006)	-	(78,324)
Segment assets	122,231	299,378	31,774	-	453,383
Segment liabilities	(54,063)	(293,545)	-	-	(347,609)

2019 \$'000 AUD	Consumer Leasing	Equipment Finance	Corporate	Discontinued operations	Consolidated
Sales Revenue	78,512	-	-	-	78,512
Interest Revenue	85,838	42,373	-	-	128,211
Other	14,262	872	-	-	15,134
Total Segment revenue	178,612	43,245	-	-	221,857
Operating expenses	(179,790)	(27,030)	(11,648)	3,197	(215,271)
EBITDA	(1,178)	16,215	(11,648)	3,197	6,586
Depreciation and amortisation	(1,018)	(108)	(2,122)	-	(3,248)
Impairment	(9,977)	-	-	-	(9,977)
EBIT	(12,173)	16,107	(13,770)	3,197	(6,639)
Finance Expense	(1,704)	(13,688)	-	-	(15,392)
Profit before tax	(13,877)	2,419	(13,770)	3,197	(22,031)
Segment assets	161,098	336,966	12,160	-	510,224
Segment liabilities	(52,161)	(288,644)	(1,100)	-	(341,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Reconciliations of reportable segment to IFRS measures

\$'000 AUD	2020	2019
Revenue		
Total revenue for reportable segments	204,299	221,857
Elimination of discontinued operations	-	-
Consolidated Revenue	204,299	221,857
Profit before tax		
Total profit before tax for reportable segments	(78,324)	(22,031)
Elimination of discontinued operations	-	(3,197)
Consolidated profit before tax from continuing operations	(78,324)	(25,228)

3. INVENTORIES

\$'000 AUD	2020	2019
Inventories	7,975	13,638

An additional provision of \$3.7m has been recognised to write-down inventories to net realisable value as a result of the decision to store the close network. This was recognised as an expense during the period and included in cost of sales in the income statement.

4. CASH AND CASH EQUIVALENTS

\$'000 AUD	2020	2019
Bank balances	49,619	30,627
Call deposits	-	-
Cash and cash equivalents	49,619	30,627

Included in cash is an amount of \$20,896,000 (2019: \$22,681,000) held as part of the consolidated entity's funding arrangements that are not available to the consolidated entity. This cash is held within the funding warehouse trust and as such is under the control of the Trustee. Free cash is therefore \$28,723,000 (2019: \$7,947,000).

5. TRADE AND OTHER RECEIVABLES

\$'000 AUD	2020	2019
Current		
Trade receivables	7,105	11,711
Finance lease receivables	101,561	128,128
Loan receivables	20,631	28,008
	129,297	167,847
Non-current		
Finance lease receivables	221,954	238,855
Loan receivables	38,591	50,692
	260,546	289,547

Finance lease receivables are recognised at the present value of the minimum lease payments less impairment losses. The present value is calculated by discounting the minimum lease payments due, at the interest rate implicit in the lease. At balance date there was approximately \$250,000 of unguaranteed residual value in the finance lease receivable balance.

Trade receivables and loan receivables are stated at their amortised cost less impairment losses. The consolidated entity's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

6. LEASES

Finance leases as lessor

The Consumer Leasing division leases household goods to consumers. Contracts range from 1 - 60 months. The Business Finance division finances business assets to small and medium enterprises. Finance is provided in the form of a lease, a hire purchase agreements or a chattel mortgage contract. The majority of contracts in both divisions are for 24 months or more.

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases. The majority of the Group's leased assets meet the definition of finance leases.

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of any unguaranteed residual value is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Interest income is recognised over the term of the lease using the effective interest rate method, which reflects a constant rate of return. Finance lease income is presented within interest revenue.

Contracts are secured against the assets leased. In the Business Finance division further security may be obtained including the taking of personal and director guarantees.

The future minimum lease receipts under non-cancellable finance leases are as follows:

\$'000 AUD	2020	2019
Lease receivables - less than one year	238,307	250,173
Lease receivables - between one and five years	321,507	334,767
Total Lease receivables	559,814	584,940
Unearned interest income on finance leases - less than one year	(72,399)	(91,360)
Unearned interest income on finance leases - between one and five years	(91,264)	(76,934)
Total unearned interest income on finance leases	(163,663)	(168,294)
Impairment provisioning	(72,635)	(49,663)
Net Lease receivables	323,516	366,983

Gross cash flows are expected to be collected as follows: \$168,577,000 between one and two years, \$98,300,000 between years two and three, \$44,681,000 between years four and five and \$9,949,000 in year five.

At 31 March 2020 there is \$1,200,000 (2019: \$800,000) in unguaranteed residual value recognised in the Business Finance lease receivable balance.

Operating lease revenue of \$243,000 (2019: \$2,182,000) has been recognised in other revenue in the Consumer Leasing division. Finance lease revenue of \$34,200,000 (2019: \$33,900,000) has been recognised in interest revenue in the Business Finance division.

Finance leases as lessee

At 31 March the lease liability was \$11.7m of which \$8.3m related to property leases, \$3.2m were vehicle lease commitments and \$0.2m were printer lease commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Amounts recognised in the statement of profit or loss and other comprehensive income

The statement of profit or loss and other comprehensive income shows the following amounts relating to leases.

\$'000 AUD	2020
Impairment charge of right-of-use assets	
Properties	1,095
Vehicles	-
Printers	-
Total impairment	1,095
Interest expense (included in finance expenses)	715
Expense relating to short-term and low-value leases	2,586
Expense relating to variable lease payments not included in lease liabilities	559
Total expenses relating to leases	3,860

The total cash outflow for leases in financial year ending 31 March 2020 was \$10,412,000.

7. INTANGIBLE ASSETS

\$'000 AUD	Right of use asset	Goodwill	Software	Total
Year ended 31 March 2019				
Opening net carrying amount	-	-	5,702	5,702
Additions	-	-	1,205	1,205
Amortisation charges for the year	-	-	(1,697)	(1,697)
Impairment charges for the year	-	-	(5,210)	(5,210)
Closing net book amount	-	-	-	-
At 31 March 2019				
Cost	-	-	16,914	16,914
Amortisation	-	-	(11,704)	(11,704)
Impairment	-	-	(5,210)	(5,210)
Net book amount	-	-	-	-

\$'000 AUD	Right of use asset	Goodwill	Software	Total
Year ended 31 March 2020				
Opening net carrying amount	-	-	-	-
Initial application of AASB 16 – creation of asset	16,355	-	-	16,355
Initial application of AASB 16 – impairment of asset	(16,355)	-	-	(16,355)
Additions	1,095	-	195	1,290
Amortisation charges for the year	-	-	-	-
Impairment charges for the year	(1,095)	-	(195)	(1,290)
Closing net book amount	-	-	-	-
At 31 March 2020				
Cost	17,450	-	17,109	34,559
Amortisation and impairment	(17,450)	-	(17,109)	(34,559)
Net book amount	-	-	-	-

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

When not impaired, 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)

Key assumptions used for fair value less cost of sale calculations

Consumer Leasing

During the year a similar test (as described below) was performed with a similar outcome, i.e. the CGU continued to be impaired. The average annual revenue growth rate assumed was 3%. All other assumptions remained the same. At year end the forecast assumptions have deteriorated further and the division continues to be impaired. As such all intangibles recognised during the year have been fully impaired.

31 March 2019

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 \$5,210,000 has been recognised in the income statement for the year ended 31 March 2019. The circumstances that led to this impairment included lower than expected business performance including origination and collections 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 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 4.6% which included installation growth of 13% between 2019 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 assumption. The post-tax discount rate is assumed at 9.5% (2018: 9.5% post-tax).

8. PROPERTY, PLANT AND EQUIPMENT

\$'000 AUD	Total
Year ended 31 March 2019	
Opening net carrying amount	3,463
Additions	2,855
Depreciation charges for the year	(1,551)
Impairment charges for the year	(4,767)
Closing net book amount	-
At 31 March 2019	
Cost	34,188
Accumulated depreciation	(29,421)
Impairment	(4,767)
Net book amount	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

\$'000 AUD	Total
Year ended 31 March 2020	
Opening net carrying amount	-
Additions	615
Depreciation charges for the year	-
Impairment charges for the year	(615)
Closing net book amount	-
At 31 March 2020	
Cost	34,803
Accumulated depreciation	(29,421)
Impairment	(5,382)
Net book amount	-

Property plant and equipment

Property plant and equipment consist of furniture, fittings, and physical computer equipment.

Impairment

Testing using a fair value less cost of disposal revealed the carrying amount of the CGU exceeded its recoverable amount and the entire balance of property, plant and equipment was impaired. Refer to note 7 for details.

9. INCOME TAX EXPENSE

Recognised in the Income Statement

\$'000 AUD	2020	2019
Current tax expense		
Current year	-	-
Adjustment for prior year	-	(919)
Deferred tax expense		
Origination and reversal of temporary differences	2,744	(6,147)
Tax on discontinued operations	-	(15)
Total income tax (benefit)/ expense in income statement	2,744	(7,081)

Numerical reconciliation between tax expense and pre-tax accounting profit

\$'000 AUD	2020	2019
Profit before tax	(78,324)	(25,228)
Prima facie income tax using the domestic corporation tax rate of 30% (2019: 30%)	(23,497)	(7,568)
Change in income tax expense due to:		
Non-deductible expense and unrecognised timing differences	(67)	1,406
Recognised and unrecognised timing differences	26,308	-
(Over) / Under provided in prior years	-	(919)
Income tax (benefit)/ expense on pre-tax accounting profit	2,744	(7,081)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

10. DEFERRED TAX ASSETS & LIABILITIES

Recognised deferred tax assets and liabilities

\$'000 AUD	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
Inventories	49,666	56,649	-	-	49,666	56,649
Property, plant and equipment	3,779	4,049	-	-	3,779	4,049
Trade, loan and other receivables	-	1,273	(199)	-	(199)	1,273
Finance lease receivables	-	-	(56,272)	(70,158)	(56,272)	(70,158)
Accruals	1,752	2,580	-	-	1,752	2,580
Provisions	1,274	1,390	-	-	1,274	1,390
Tax losses	-	2,118	-	-	-	2,118
Financial derivative	-	998	-	-	-	998
Tax assets / (liabilities)	56,472	69,058	(56,472)	(70,158)	-	(1,100)

The Group has unrecognised current tax losses of \$41.5m (\$12.5m tax effected) and \$46.5m (\$13.9m tax effected) of unrecognised deferred tax future deductions.

Prior year restatement

The Group undertook a project to re-evaluate its prior tax returns as there was a concern that there had been errors in the timing of tax differences relating to tax depreciation adjustments which meant that Thorn had paid in advance and would seek a cash refund (and repay in later years when formally due). The project resulted in the acceleration of current tax benefits and converted the 2019 current tax expense from a tax payable position to a \$7m tax loss. This was offset by an equal and opposite change in deferred tax expense such that the total tax expense for 2019 did not change. As a result the Group received refunds for all PAYG instalments made for 2019 (in the current financial year) and 2020 (subsequent to the 31 March 2020) and the Group's PAYG instalment rate was varied to zero.

This resulted in the following restatement to the prior comparative period;

Statement of Financial Position (extract)	31 March 2019 \$'000 AUD	Increase/(Decrease) \$'000 AUD	31 March 2019 Restated \$'000 AUD
Assets			
Income tax receivable	1,293	2,920	4,213
Total current assets	217,757	2,920	220,677
Deferred tax assets	5,541	(5,541)	-
Total non-current assets	295,088	(5,541)	289,547
Total assets	512,845	(2,621)	510,224
Liabilities			
Deferred tax liabilities	-	1,100	1,100
Total non-current liabilities	186,033	1,100	187,133
Total liabilities	340,805	1,100	341,905
Net assets	172,040	(3,721)	168,319
Equity			
Retained earnings	52,532	(3,721)	48,811
Total equity	172,040	(3,721)	168,319

The net income tax benefit has reduced by \$25,000. No other financial statement line items were impacted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

The cumulative impact of the above error resulted in a decrease of retained earnings as at 31 March 2018 of \$3,696,000 with a corresponding impact on deferred tax liabilities and income tax payable.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

Thorn Group Limited and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 April 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Thorn Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable / (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

Thorn Group Limited recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of Tax Funding Arrangements and Tax Sharing Arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

11. DERIVATIVE AND HEDGING ACTIVITIES

The Group enters into interest rate swaps to fix the interest rate on the warehouse funding balance and therefore remove the fixed/floating interest rate mismatch between the Group's receivables and the Group's funding balance. These arrangements are designated as cash flow hedges under AASB 139 (which the Group has opted to retain as is currently permitted). This instrument is an amortising swap whose cash flow profile is modelled on the expected repayment profile of the receivables (which mirrors the funding balance) and is regularly reset. As such the swap is expected to be effective and continues to be effective under the requirements of AASB 139.

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 31 March 2020.

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.

\$'000 AUD	2020	2019
Interest rate swap liability	6,322	3,326

12. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The consolidated entity is exposed to financial risks through the normal course of its business operations. The key risks arising are credit risk, liquidity risk and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk & Compliance Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Risk & Compliance Committee oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity.

Risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of loss that arises when a customer or third party fails to pay an amount owing to the Company and is the most significant risk to the group. The maximum exposure to credit risk is represented by the carrying amount receivables and loans. The Group leases products to consumers and provides business finance to SME's pursuant to policies and procedures that are intended to ensure that there is no concentration of credit risk with any particular individual, company or other entity. The Group is subject to a higher level of credit risk due to the credit constrained nature of many of the Company's customers.

The Group maintains a provision for receivable losses. The process for establishing the provision for losses is critical to the Group's results of operations and financial condition.

Credit risk grew in-line with the growth of the loan and lease receivables in all segments.

Expected credit loss measurement

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; and

Stage 3: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk based on quantitative information to identify this on an asset level. Each financial asset will be assessed at the reporting date for significant deterioration where the financial asset is more than 30 days past due. When an account is cured it retains an adjusted and higher probability of default within the impairment model for 6 months. Default is defined as 60 days past due for Radio Rentals and 90 days past due for Business Finance. In light of COVID-19, the Group has made an additional assessment of those assets which are not 30 days past due but have likely experienced a SICR as part of the Management overlay set out in further detail below.

Macroeconomic Scenarios

Expected credit losses ("ECL") are a probability-weighted estimate of credit losses over the expected life of the financial instrument. The Group has a process for incorporating forward looking economic scenarios and determining the probability weightings assigned to each scenario in determining the overall ECL. The Group prepares a base, best and worst case scenario based on economic variables relevant to the Consumer Leasing and Business Finance business units. The Group has incorporated this by use of a management overlay as explained below.

Management overlay

As the full impacts of the COVID-19 pandemic were yet to be felt at the balance date, the Group has yet to see the anticipated increase in delinquencies which would flow through to the modelled expected loss provision. As these likely future delinquencies are not currently captured in the modelled outcome, the Group has specifically considered the likely industry specific and retail customer impacts through an overlay. This overlay is therefore in addition to the standard modelled provision under AASB 9.

The modelled performance of these receivables will evolve as the situation unfolds and more data is available to model or understand the credit risk and loss implications from the COVID-19 pandemic and the mitigating impact of government stimulus. Over time as the impacts work their way into the reported variables the overlay can be expected to reduce as the impact becomes reflected in the routine modelled outcome.

Business Finance

The Business Finance division finances small to medium size business across the country and many of the divisions customers are in industries heavily affected by COVID-19. To evaluate the ECL, the portfolio has been stratified into industry segments whose impact from the COVID-19 pandemic has then been rated as either high or low. The impact rating has been determined by analysing the proportion of customers from these industry groups who have contacted Thorn to advise they have been negatively affected by COVID-19 and who have requested payment relief. The more highly impacted industry groups are in industries impacted by social distancing, travel, supply chain disruption, and industries adjacent to and dependent upon these groups. They include accommodation and food services, arts and recreational services. The majority of those customers applying for payment relief have gone into arrears after 31 March 2020.

Consumer Leasing

Many of the Radio Rentals customers work in affected industries and particularly in the higher affected employment statuses such as part time and casual work. As such, the COVID-19 pandemic is expected to have a material impact upon those customers financial situation and the related receivable credit losses. In addition to that factor, the recently announced decision to close the entire Radio Rentals store network and run off the existing consumer leasing receivables book is expected to present challenges to collection rates.

To assess the ECL, a rating matrix has been applied by rating customers across three criteria; monthly billing amount, occupation status and employment type. This resulted in a rating scale from 3 to 9. Ratings 3 to 5 are considered to be low risk, 6 to 7 medium and 8 to 9 high risk. Receivables have then been attributed to groups across that ratings scale with the AASB 9 staging buckets and their probability of default ("PD") adjusted upwards progressively as they move through the scale. The adjusted PD has been applied at a portfolio level using the current loss given default ("LGD") to estimate the expected loss. In addition, the Group has overlaid this with prior experience of collection performance deterioration from situations where stores have been closed in the past. This has been used to estimate the increased risk to collections in the portfolio.

Overall

The Group has looked at three potential scenarios, outlined below, and how these will impact the two divisions. The Group has then weighted the three scenarios with the highest weighting being applied to the baseline case. The outcome of this is an additional \$22.1m million provision for the Business Finance Division and a \$13.5m provision for the Consumer Leasing Division.

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The following provides an overview of the scenarios chosen as well as the expected change to the total overlay were the individual scenarios to be given a 100% weighting:

Scenario	Expectation
Baseline A 100% weighting to this scenario would reduce the expected credit loss provision by circa \$3.8m	This scenario assumes that most of the current domestic containment measures remain in place for most of the June quarter and that most of the restrictions are assumed to have been lifted by the end of the September quarter. With business activity adversely impacted, unemployment rates rise to ~9% in mid-2020 with a recovery to broadly pre COVID-19 levels over the following 3 years. Australian GDP could contract by ~10% year on year in mid-2020 before recovering to pre-COVID-19 levels in 2022.
Faster recovery A 100% weighting to this scenario would reduce the expected credit loss provision by circa \$9.0m	If measures to control of the virus prove more effective a stronger economic recovery would be possible. In this scenario, much of the near-term decline in GDP could be reversed over 2020–21 as consumption and employment growth rebound. The unemployment rate could be expected to move from a peak of around 10 per cent to be around its pre-COVID-19 level over the following 2 years. The stronger recovery would enable some recovery in wage growth. Australian GDP could contract by ~10% year on year in mid-2020 before recovering to pre-COVID-19 levels in late 2021.
Slower recovery A 100% weighting to this scenario would increase the expected credit loss provision by circa \$7.0m	If the lifting of restrictions is delayed or the restrictions need to be reimposed and household and business confidence remains low, the outcomes would be even more challenging than those in the baseline scenario. For this scenario, it is assumed that severe restrictions remain in place until closer to the end of calendar 2020. GDP would then be expected to contract by 10% year on year and not recover until 2023 or later while the unemployment rate would be expected to be greater than 10% at the end of calendar 2020 and not expected to recover to pre COVID-19 levels until 2023 or later.

The judgements and assumptions used in estimating the overlays will be reviewed and refined in future financial periods as the COVID-19 pandemic progresses.

Loss allowance

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Consumer Leasing lease receivables

Impairment provision	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000 AUD	\$'000 AUD	\$'000 AUD	
Loss allowance as at 1 April 2019	14,040	7,317	5,523	26,881
Movements with P&L impact				
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(10,784)	13,382	-	2,599
Transfer from Stage 1 to Stage 3	(273)	-	3,210	2,937
Transfer from Stage 2 to Stage 1	288	(1,622)	-	(1,334)
Transfer from Stage 2 to Stage 3	-	(234)	252	18
Transfer from Stage 3 to Stage 1	92	-	(667)	(575)
Transfer from Stage 3 to Stage 2	-	94	(278)	(184)
Changes in the balances of non-transferred financial assets	1,014	(766)	(4)	244
Changes to model assumptions and methodologies	13,500	-	-	13,500
Write-offs	(1,782)	(2,426)	(3,195)	(7,403)
Total net P&L charge during the period	2,055	8,428	(680)	9,803
Loss allowance as at 31 March 2020	16,095	15,745	4,843	36,683

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For the year ended 31 March 2020

The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the loss allowance as discussed above:

Lease receivables	Stage 1	Stage 2	Stage 3	Total \$'000 AUD
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000 AUD	\$'000 AUD	\$'000 AUD	
Gross carrying amount as at 1 April 2019	144,946	13,210	5,228	163,385
Movements with P&L impact				
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(30,017)	30,017	-	-
Transfer from Stage 1 to Stage 3	(2,870)	-	2,870	-
Transfer from Stage 2 to Stage 1	3,318	(3,318)	-	-
Transfer from Stage 2 to Stage 3	-	(491)	491	-
Transfer from Stage 3 to Stage 1	826	-	(826)	-
Transfer from Stage 3 to Stage 2	-	344	(344)	-
Changes in the balances of non-transferred financial assets	12,032	(9)	1,507	13,530
Write-offs	(21,222)	(5,390)	(3,957)	(30,569)
Total net change during the period	(37,933)	21,152	(258)	(17,039)
Gross closing amount as at 31 March 2020	107,013	34,362	4,970	146,345

Business finance loan and lease receivables

Impairment provision	Stage 1	Stage 2	Stage 3	Total \$'000 AUD
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000 AUD	\$'000 AUD	\$'000 AUD	
Loss allowance as at 1 April 2019	7,419	1,519	17,958	26,896
Movements with P&L impact				
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(20,727)	23,541	-	2,814
Transfer from Stage 1 to Stage 3	(2,860)	-	6,165	3,305
Transfer from Stage 2 to Stage 1	41	(447)	-	(406)
Transfer from Stage 2 to Stage 3	-	(120)	236	116
Transfer from Stage 3 to Stage 1	25	-	(1,401)	(1,375)
Transfer from Stage 3 to Stage 2	-	20	(28)	(8)
Changes in the balances of non-transferred financial assets	7,595	502	(11,637)	(3,540)
Changes to model assumptions and methodologies	22,109	-	-	22,109
Write-offs	(774)	(393)	(3,443)	(4,611)
Total net P&L charge during the period	5,408	23,103	(10,108)	18,404
Loss allowance as at 31 March 2020	12,827	24,622	7,851	45,300

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The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the loss allowance as discussed above:

Receivables	Stage 1	Stage 2	Stage 3	Total \$'000 AUD
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000 AUD	\$'000 AUD	\$'000 AUD	
Gross carrying amount as at 1 April 2019	319,973	4,342	23,470	347,785
Movements with P&L impact				
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(61,951)	61,951	-	-
Transfer from Stage 1 to Stage 3	(6,551)		6,551	-
Transfer from Stage 2 to Stage 1	1,953	(1,953)	-	-
Transfer from Stage 2 to Stage 3	-	(515)	515	-
Transfer from Stage 3 to Stage 1	3,759	-	(3,759)	-
Transfer from Stage 3 to Stage 2	-	75	(75)	-
Changes in the balances of non-transferred financial assets	42,432	(234)	(10,148)	32,049
Write-offs	(43,594)	(1,512)	(9,241)	(54,346)
Total net change during the period	(63,952)	57,811	(16,156)	(22,297)
Gross closing amount as at 31 March 2020	256,021	62,153	7,314	325,488

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's net exposure to credit risk at the reporting date was:

\$'000 AUD	2020	2019
Trade receivables	7,105	11,711
Consumer Leasing lease receivables	103,522	129,652
Business Finance lease receivables	277,442	237,331
Loan receivables	1,774	78,700
	389,843	457,394

Chattel mortgages are classified as loan receivables in accordance with AASB 9. The group classifies its chattel mortgages as at amortised cost only if both of the following criteria are met: the asset is held within a business model whose objective is to collect the contractual cash flows, and the contractual terms give rise to cash flows that are solely payments of principal and interest.

Write-off policy

The Group writes off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral such that there is no reasonable expectation of full recovery.

Modification of financial assets

The Group sometimes modifies the terms of leases provided to customers due to commercial renegotiations, or for distressed leases, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays, and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Impairment losses

Consumer Leasing lease receivables

\$'000 AUD	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Stage 1	107,013	(16,095)	144,947	(14,040)
Stage 2	34,362	(15,745)	13,210	(7,612)
Stage 3	4,970	(4,843)	5,228	(5,228)
	146,345	(36,683)	163,385	(26,881)

The Group applies the AASB 9 three-stage approach to measuring expected credit losses which uses a twelve month loss for lease receivables in stage one and lifetime expected loss for lease receivables in stages 2 and 3. To measure the expected credit losses, lease receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of lease receivables over a period of 36 months respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Collateral is held against the finance lease receivables in the form of the assets attached to the contract. In the event that the asset is returned due to early termination of the contract, the asset is available for rental on other contracts or disposal via cash sale.

Business Finance lease receivables

\$'000 AUD	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Stage 1	203,370	(10,501)	240,638	(5,353)
Stage 2	48,280	(19,233)	3,344	(1,190)
Stage 3	5,321	(6,552)	20,362	(16,261)
	256,971	(36,286)	264,344	(22,804)

Loan receivables (Business Finance and remaining consumer solar loans)

\$'000 AUD	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Stage 1	52,651	(2,326)	79,334	(2,066)
Stage 2	13,873	(5,389)	998	(329)
Stage 3	1,993	(1,299)	3,108	(1,697)
	68,517	(9,014)	83,440	(4,092)

Liquidity risk

Liquidity risk is the risk that the Group's financial condition is adversely affected by an inability to meet its liabilities and support its business growth. The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders.

The capital structure of the Group consists of external debt and shareholders' equity. The Group manages its capital structure and makes adjustments to it in light of economic conditions and the Group's individual situation. The Group's debt facilities must be renewed on a periodic basis. These facilities contain restrictions on the Group's ability to, among other things, pay dividends, sell or transfer assets, incur additional debt, repay other debt, make certain investments or acquisitions, repurchase or redeem shares and engage in alternate business activities. The facilities also contain a number of financial and non-financial covenants. Failure to meet any of these covenants could result in an event of default under these facilities which could, in turn, allow the lender to declare all amounts outstanding to be immediately due and payable or the inability to draw down further. In such a case, the financial condition, liquidity and results of operations of the Group could materially suffer. See note 25, subsequent events, for more information on a breach of warehouse parameters post year end.

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For the year ended 31 March 2020

The Group has been successful in renewing and expanding its debt facilities in the past to meet the needs of its growing finance business. If the Group were unable to renew these facilities or unable to renew on acceptable terms when they became due, there could be a material adverse effect on the Group's financial condition, liquidity and results of operations.

Liquidity risk is managed through the adequate provision of funding and effective capital management policies.

The following are the contractual maturities of the consolidated entity's financial liabilities including, where applicable, future interest payments as at 31 March 2020.

31 March 2020 (\$'000 AUD)	Carrying amount	Contractual Cash flows	1 year or less	1-5 years	5 years or more
Secured loan facilities	305,545	332,507	127,066	205,441	-
Lease liability	11,721	12,346	6,391	5,955	-
Trade and other payables	14,988	14,988	14,948	-	-
	332,254	359,841	148,445	221,396	-

31 March 2019 (\$'000 AUD)	Carrying Amount	Contractual Cash flows	1 year or less	1-5 years	5 years or more
Secured loan facilities	303,644	336,977	119,923	217,054	-
Trade and other payables	24,738	24,738	24,738	-	-
	328,382	361,715	144,661	217,054	-

The consolidated entity's access to financing arrangements is disclosed in note 14.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency, will affect the consolidated entity's income and cash flow. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Foreign currency risk

The Group is also subject to currency risk related to the direct acquisition of inventories from overseas suppliers. To mitigate this risk the group operates a foreign exchange risk policy. The Group has historically been able to price its lease transactions to compensate for the impact of foreign currency fluctuations on its purchases. However, in periods of rapid change in an exchange rate, the Group may not be able to pass on such changes in the cost of purchased products to its customers which may negatively impact the Group's financial performance. The Group currently does not actively hedge foreign currency risk and transacts in foreign currencies on a spot basis.

Interest rate risk

Interest rate risk is the risk the consolidated entity incurs a financial loss due to adverse movement in interest rates. The consolidated entity is subject to interest rate risk on both its senior debt facility and the securitised warehouse.

The consolidated entity enters into interest rate hedges to effectively fix the interest payments on securitised warehouse borrowings and therefore remove the interest rate mismatch between the receivables and the borrowings. No interest rate hedges have been purchased on the corporate senior debt facility.

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

\$'000 AUD	2020	2019
Free cash	28,723	7,947
Borrowings	(305,545)	(303,644)

A change of one percent in interest rates at the reporting date would have increased or decreased the consolidated entity's equity and other comprehensive income by \$1,938,000 (2019: \$2,070,000), net of tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Financial instruments

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on equity, which the consolidated entity defines as net profit after tax divided by the average of opening and closing equity. The Board of Directors also monitors the level of dividends to ordinary shareholders. Refer to note 15 for quantitative data.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments excluding financial assets at fair value through profit and loss are recognised initially at fair value plus transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost less impairment losses.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the consolidated entity's obligation specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the consolidated entity has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously. Thorn does not apply netting.

The consolidated entity recognises its financial assets at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification of financial assets that the consolidated entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

Financial assets recognised at amortised cost are measured using the effective interest method, net of any impairment loss.

Financial assets other than those classified as financial assets recognised at amortised cost are measured at fair value with any changes in fair value recognised in profit or loss.

Fair values

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Derivatives are measured at fair value. These are level 2 instruments. For all other financial instruments, amortised cost approximates fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

13. PROVISIONS

2020 \$'000 AUD	Business Finance restitution	Regulatory	Make good	Total
Opening balance	1,420	707	1,675	3,802
Provisions made during the year	269	-	47	316
Provisions used during the year	-	(102)	(87)	(189)
Provisions reversed during the year	-	-	-	-
Provisions reclassified to accruals	-	-	-	-
	1,689	605	1,635	3,929
Current	1,689	605	1,635	3,929
Non-current	-	-	-	-
	1,689	605	1,635	3,929

2019 \$'000 AUD	Business Finance restitution	Regulatory	Make good	Total
Opening balance	-	6,138	1,808	7,946
Provisions made during the year	1,420	-	75	1,495
Provisions used during the year	-	(3,237)	(208)	(3,445)
Provisions reversed during the year	-	-	-	-
Provisions reclassified to accruals	-	(2,194)	-	(2,194)
	1,420	707	1,675	3,802
Current	1,420	707	640	2,767
Non-current	-	-	1,035	1,035
	1,420	707	1,675	3,802

Business Finance restitution

In the prior year a large specific provision of \$10.1m was taken up to provide in full for the receivable for the industry wide matter of a group of customers for a specific product who were challenging the enforceability of their leases. The Australian Financial Complaints Authority has issued an initial advice in favour of the customers and setting out terms of further restitution beyond the writing off of their payable balance. The receivable has now been written off in full, in accordance with the Group's write off policy, as management have concluded there is no reasonable expectation of recovery and all practical recovery efforts have been exhausted.

However, the matter has not been settled and consequently the Group still retains the restitution provision related to this matter.

Regulatory

Regulatory provision represents amounts set aside in the Consumer Leasing division for potential customer remediation, penalties and administration costs.

Make good on leased premises

Make good provision represent expected costs of returning leased office, showroom or warehouse premises to the condition specified in the individual lease contracts upon termination of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

14. LOANS AND BORROWINGS

\$'000 AUD	2020	2019
Current liabilities		
Secured loans	117,918	122,490
Non-Current liabilities		
Secured loans	187,627	181,154
	305,545	303,645

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest basis.

Financing facilities

\$'000 AUD	2020	2019
Secured corporate loan facility A (Maturity 30 November 2020)	12,000	25,000
Utilised	(12,000)	(15,000)
Available headroom	-	10,000
Secured corporate loan facility B (Maturity 30 November 2020)	5,000	5,000
Utilised	(2,956)	(2,146)
Available headroom	2,044	2,854
Securitised warehouse facility	368,000	368,000
Utilised	(293,545)	(288,644)
Available headroom	74,455	79,356
Total loan facilities	385,000	398,000
Utilised	(308,501)	(305,790)
Secured loan facilities not utilised at reporting date	76,499	92,210

Corporate facilities

The corporate debt facility is in two parts; the 'A' facility which is a general corporate facility fully drawn to its \$12.0m limit, and the 'B' facility which is a \$5.0m limit of a combined undrawn overdraft and drawn bank guarantees to landlords and suppliers. The 'B' facility utilization varies with the level of overall guarantees given and was drawn to \$3.0m at year end to fund bank guarantees and the remaining available overdraft facility was undrawn. The drawn balance in facility 'A' of \$12.0m is presented as a current liability in the statement of financial position as the facility matures on 30 November 2020 and the intention is to repay it at that time. The corporate facilities are secured by a fixed and floating charge over the assets of the consolidated entity.

During the year the Group entered into a revised arrangement with its lender on its corporate facility which waived the Group's obligation to comply with any financial covenants until 14 April 2020. As part of this arrangement, the Group's \$25.0m facility 'A' limit was reduced to \$15.0m at 30 September 2019 and subsequently reduced to \$12.0m in October 2019 following the Group's rights issue. The Group is currently operating without a waiver but is in negotiations with its lender over a further waiver which envisages repaying the \$12m corporate facility progressively through to 30 November 2020 and abiding under a new covenant not to pay a dividend while the corporate facilities remain unrepaid.

Warehouse facility

Thorn Business Finance is financed by a securitised warehouse structure with senior notes (70%) held by a major Australian bank, mezzanine notes (22%) held by a major Australian financial services company, and equity class F notes (8%) held by Thorn. The warehouse facility was reviewed by the note holders in the normal course during the year with the availability period being extended to 10 August 2020 and the final maturity date to 10 August 2026.

The warehouse facility is secured by rentals and payments receivable from the underlying lease receivable contracts and is non-recourse to the Group by which it is meant that Thorn's liability is limited to its class F notes unless it is liable in damages for breach of the documents or it is required to buy back an ineligible receivable (defined as one that breached Thorn's initial sale representations and not merely that it goes into arrears or defaults).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current based on the amortisation profile of the underlying lease receivables. At maturity no further leases are able to be sold down into the facility and the portfolio will amortise off for as long as the underlying leases are payable. In order for the Group to utilise the available headroom in the Warehouse facility, the Group, as the holder of the residual interest, needs to fund a minimum percentage of the value of receivables sold down into the warehouse facility.

On 5 May 2020, when calculating the 30 April 2020 warehouse monthly financial results, the warehouse facility was determined to have a breach in one of its warehouse parameters which requires no more than 6% of the balances to be in arrears by more than 30 days. That arrears number was 10.5% and was directly due to the increasing presence of COVID-19 affected customers many of whom had requested a payment holiday and stopped repayments under their leases.

When the COVID-19 pandemic arose and Thorn began receiving payment holiday requests, Thorn held discussions with the senior and mezzanine noteholders around the granting of concessions such that Thorn could vary the customer contracts to include a payment holiday. Those discussions had not progressed to a resolution by 5 May 2020 and so the arrears increase triggered the breach.

A breach of this parameter is an amortisation event which, if not waived or remedied, puts the warehouse into run off under its amortisation rules. While such an event subsists, Thorn is unable to sell its originations into the warehouse and the distributions it was expecting from the warehouse via the waterfall distribution mechanism will decline depending upon the extent of the cash flow reduction.

Discussions are continuing with the senior and mezzanine note holders. If this situation remains unresolved then Thorn will endeavour to seek new sources of finance.

15. CAPITAL AND RESERVES

Issued capital

Number of shares	2020	2019
On issue at the beginning of year	161,175,066	159,929,582
Issue of new shares on vesting of performance rights	-	1,245,484
Issue of new shares under rights issue	161,175,066	-
	322,350,132	161,175,066

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and performance rights are recognised as a deduction from equity net of any tax effects.

- Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings.
- In the event of the winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.
- The Company does not have authorised capital or par value in respect of its issued shares.

Rights issue

During the period a rights issue took place. The rights issue had an institutional component and a retail component. In September 2019, under the institutional offer, 64,342,142 shares were issued at \$0.24 per share for gross proceeds of \$15.4m less associated costs of \$1.2m. In October 2019, the retail offer was finalised with a further 96,832,924 shares issued at an offer price of \$0.24 resulting in gross proceeds of \$23.3m less associated costs of \$3.2m.

In total 161,175,066 shares were issued with the Group receiving gross proceeds of \$38.7m less \$4.4m in associated costs.

Reserves

The reserves consist of the equity remuneration reserve and the cash flow hedge reserve. The equity remuneration reserve represents the value of performance rights issued. The cash flow hedge reserve consists of the fair value of cash flow hedges after tax.

\$'000 AUD	2020	2019
Cash flow hedge reserve	(6,322)	(2,328)
Share based payment reserve	410	904
	(5,912)	(1,424)

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Dividends

Dividends are recognised as a liability in the period in which they are declared. Dividends recognised in the current year by the Company are:

	Cents per Share	Amount \$'000 AUDs	Franking %	Date of payment
2020				
Final 2019	-	-	-	n/a
Interim 2020	-	-	-	n/a
Total amount		-		
2019				
Final 2018	-	-	-	n/a
Interim 2019	-	-	-	n/a
Total amount		-		

There was no dividend declared after the balance date.

Dividend franking account

\$'000 AUD	2020	2019
30% franking credits available to shareholders of Thorn Group Limited	38,463	39,608

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

16. EARNINGS PER SHARE

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

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 at 31 March 2020 was based on the loss attributable to ordinary shareholders of \$81,068,000 (2019: loss of \$18,147,000) and a weighted average number of ordinary shares during the year ended 31 March 2020 of 240,612,049 (2019: 160,160,631).

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 weighted average number of ordinary shares during the year ended 31 March 2020 is 242,708,949 (2019: 165,042,055). The weighted average number of performance rights of 2,097,000 (2019: 1,908,000) was not included because they were anti-dilutive.

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\$'000 AUD	2020	2019
Earnings per share		
Profit attributable to ordinary shareholders (basic) \$'000 AUD		
Profit attributable to ordinary shareholders (basic) - continuing operations	(81,068)	(18,147)
Profit attributable to ordinary shareholders (basic and diluted) - discontinued operations	-	3,182
Profit attributable to ordinary shareholders (basic)	(81,068)	(14,965)
Weighted average number of ordinary shares (basic) '000's		
Issued ordinary shares at 1 April	161,175	159,930
Effect of shares issued	79,437	231
Weighted average number of ordinary shares for the year	240,612	160,161
Weighted average number of ordinary shares (diluted) '000's		
Issued ordinary shares at 1 April	161,175	163,134
Effect of shares issued	81,534	1,908
Weighted average number of ordinary shares for the year	242,709	165,042
Earnings per share - continuing operations		
Basic earnings per share (cents)	(33.7)	(11.3)
Diluted earnings per share (cents)	(33.7)	(11.3)
Earnings per share - discontinued operations		
Basic earnings per share (cents)	-	2.0
Diluted earnings per share (cents)	-	1.9
Earnings per share		
Basic earnings per share (cents)	(33.7)	(9.3)
Diluted earnings per share (cents)	(33.7)	(9.3)

17. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership Interest	
		2020	2019
Parent entity			
Thorn Group Limited	Australia		
Subsidiaries			
Thorn Australia Pty Ltd	Australia	100%	100%
Eclipse Retail Rental Pty Ltd	Australia	100%	100%
Rent Try Buy Pty Ltd	Australia	100%	100%
Thorn Equipment Finance Pty Ltd	Australia	100%	100%
Thorn Business Finance Pty Limited	Australia	100%	100%
Thorn Finance Pty Ltd	Australia	100%	100%
Thorn ABS Warehouse Trust No. 1	Australia	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Basis of consolidation

Subsidiaries

Subsidiaries are entities (including special purpose entities) controlled by the consolidated entity. The consolidated entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The consolidated entity has established a special purpose entity (SPE), Thorn ABS Warehouse Trust No.1, for the purpose of securitising finance lease receivables acquired and other receivables it intends to originate. The SPE entity is wholly owned by the consolidated entity and included in the consolidated financial statements, based on the evaluation of the substance of its relationship with the consolidated entity and the SPE's risks and rewards.

The following circumstances indicate a relationship in which the consolidated entity controls and subsequently consolidates the SPE:

- The activities of the SPE are being conducted on behalf of the consolidated entity according to its specific business needs so that the consolidated entity obtains benefits from the SPE's operation;
- The consolidated entity has the decision making powers to obtain the majority of the benefits of the activities of the SPE; and/or
- The consolidated entity retains the majority of the residual of ownership risks of the SPE or its asset in order to obtain benefits from its activities.

18. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations Instrument 2016/914 certain wholly owned subsidiaries are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Corporations Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of this is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the Deed are listed in note 17 (excluding Thorn ABS Warehouse Trust No. 1).

The profit before tax per the consolidated Statement of Comprehensive Income comprising of entities which are parties to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 March 2020, is the same as the consolidated Statement of Comprehensive Income in this financial report. The consolidated Statement of Financial Position in this financial report includes the assets and liabilities of Thorn ABS Warehouse Trust No. 1 which have been disclosed in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

19. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 March 2020 the parent entity of the consolidated entity was Thorn Group Limited.

\$'000 AUD	2020	2019
Result of Parent Entity		
Loss for the period	(49,891)	-
Other comprehensive income	-	-
Total comprehensive loss for the period	(49,891)	-
Financial position of the parent entity at year end		
Current assets	3,051	4,213
Total assets	105,775	122,936
Current liabilities	-	-
Total liabilities	-	1,100
Total equity of the parent comprising		
Share capital	155,255	120,932
Accumulated losses	(49,891)	-
Equity remuneration reserve	410	904
Total Equity	105,775	121,836

During the period the parent recorded a loss in respect of receivables due from subsidiaries.

The parent entity has entered into a Deed of Cross Guarantee with the subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 18.

20. SPECIAL PURPOSE ENTITY

The Group sells receivables to a warehouse financing facility through its special purpose entity. The SPE is consolidated as set out in note 17 as the Group is exposed or has rights to variable returns and has the ability to affect its returns through its power over the special purpose vehicle. The table below presents assets and the underlying borrowings attributable to the SPE.

\$'000 AUD	2020	2019
Receivables	281,903	280,139
Cash held by Trust	20,896	22,681
Total	302,799	302,820
Borrowings related to receivables	293,545	288,644

The Group provide additional support to the special purpose entity including a liquidity facility of \$3.6m (2019: \$3.3m) and a bill and collect facility of \$2.5m (2019: \$2.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

21. DISPOSAL OF SUBSIDIARY

Three business divisions were sold over the past three years to reduce debt. There were final payment adjustments, tax finalisation and the resolution of provisions set aside for warranty and other claims during the prior financial year which gave rise to a profit after tax for discontinued businesses of \$3.2m.

Result of discontinued operations

\$'000 AUD	2020	2019
Revenue	-	-
Expenses	-	-
Results from operating activities	-	-
Income tax	-	-
Results from operating activities, net of tax	-	-
Gain/(loss) on sale of discontinued operation	-	3,197
Income tax on sale of discontinued operation	-	(15)
Profit (loss) from discontinued operations, net of tax	-	3,182

22. RELATED PARTIES

Key management personnel remuneration

\$	2020	2019
Short-term employee benefits	2,459,609	2,673,518
Post-employment benefits	127,713	126,634
Long-term employee benefits	-	-
Share based payments	(307,421)	1,134,321
	2,279,901	3,934,473

Individual directors and executives compensation disclosures

Information regarding individual Director's and executive's compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' report.

There were no loans made or outstanding to Directors or executive KMP during or at the end of the year.

23. SHARE BASED PAYMENTS

The aggregate transactions and outstanding balances relating to share based payments were as follows:

Performance rights granted as compensation in the year

	Performance Rights Granted		Financial Year in which Grants Vest (ended 31 March)
	Number	Date	
Performance rights	4,141,162	1 July 2019	2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Performance rights over equity instruments granted

The movement during the year in the number of performance rights over ordinary shares in Thorn Group Limited held directly, indirectly or beneficially, by the employees is as follows:

	Held at 1 April 2019	Granted as Compensation	Vested during the year	Lapsed	Forfeited	Held at 31 March 2020
Performance rights	4,389,850	4,141,162	-	(405,900)	(5,334,329)	2,790,783

24. AUDITORS' REMUNERATION

In whole AUD	2020	2019
	PwC Australia	PwC Australia
Audit services		
Audit and review of financial reports	1,016,938	660,240
Other assurance services	171,250	-
Total Audit Services	1,188,188	660,240
Other services		
Controls review	-	140,879
Other assurance services	14,280	-
Total other services	14,280	140,879
Total auditor's remuneration	1,202,468	801,119

25. SUBSEQUENT EVENTS

The COVID-19 pandemic has had two significant impacts upon Thorn subsequent to the year end.

Securitised warehouse funding

On 5 May 2020, when calculating the 30 April 2020 warehouse monthly financial results, the warehouse facility was determined to have a breach in one of its warehouse parameters which requires no more than 6% of the balances to be in arrears by more than 30 days. That arrears number was 10.5% and was directly due to the increasing presence of COVID-19 affected customers many of whom had requested a payment holiday and stopped repayments under their leases.

When the COVID-19 pandemic arose and Thorn began receiving payment holiday requests, Thorn held discussions with the senior and mezzanine noteholders around the granting of concessions such that Thorn could vary the customer contracts to include a payment holiday. Those discussions had not progressed to a resolution by 5 May 2020 and so the inevitable arrears increase triggered the breach.

A breach of this parameter is an amortisation event which, if not waived or remedied, puts the warehouse into run off under its amortisation rules. While such an event subsists, Thorn is unable to sell its originations into the warehouse and the distributions it was expecting from the warehouse via the waterfall distribution mechanism will decline depending upon the extent of the cash flow reduction.

Discussions are continuing with the senior and mezzanine note holders. If this situation remains unresolved then Thorn will endeavour to seek new sources of finance.

Radio Rentals store closures and transition to fully online

The health and safety concerns for Radio Rentals customers and staff during the developing COVID-19 pandemic prompted Thorn to temporarily close the Radio Rentals stores on 2 April 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

Thorn had at the time been developing a plan to address the division's profitability and the substantial move by customers to the online platform where 70% of applications were being received online. On 23 April 2020, Thorn announced the decision to permanently close the Radio Rentals store network, collect the legacy receivables book, and develop its core Radio Rentals business using a purely online platform.

This decision entails approximately 300 redundancies at an estimated cost of \$5m which is not provided for in these financial statements as it is a non-adjusting accounting event, the termination of all Radio Rentals store leases with a settlement sum to be paid to the lessors and make good expenses where appropriate, the realisation of the existing inventory position, incurring of expenses to continue to service and collect on the receivables book, and developing the digital business model. These are substantial changes to the division's business model which will have a significant impact on the company and its financial statements going forward.

DIRECTORS' DECLARATION

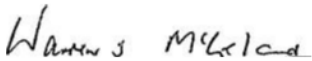
For the year ended 31 March 2020

Directors' declaration

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

1. (a) the financial statements and notes that are set out on pages 24 to 59 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the consolidated entities identified in note 17 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the consolidated entities pursuant to ASIC Corporations Instrument 2016/914.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 March 2020.

Signed in accordance with a resolution of the directors.



Warren McLeland
Chairman

Dated at Sydney
29 May 2020



Independent auditor's report

To the members of Thorn Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Thorn Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 31 March 2020 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 March 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Material uncertainty related to going concern

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred a net loss before income tax of (\$78.3m) during the year ended 31 March 2020 and, net cash used in its operating activities during the same period was (\$9.2m). As stated in Note 1(b), these events or conditions, along with other matters set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of \$2.6 million, equivalent to approximately 5% of the Group's adjusted loss before income tax. In calculating our materiality we adjusted for the class action settlement cost as it is an unusual or infrequently occurring item impacting the profit and loss.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group loss before income tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.



Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is principally involved in providing leases to consumers and to businesses in Australia, through its two key divisions, Radio Rentals and Thorn Business Finance, respectively.
- The accounting processes are structured around a central Group finance function at the Group's head office in Sydney.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for impairment losses on loans and receivables (Refer to note 13) [\$82m]</i></p> <p>This was a key audit matter because the determination of the provision for impairment losses on loans and receivables was driven by subjective judgements made by the Group in predicting expected credit losses (ECL), particularly as a result of uncertainty around the economic and financial market impact from the COVID-19 pandemic.</p> <p>The majority of the receivables balances were low value and therefore the ECL was modelled on a collective basis at a portfolio level.</p> <p>Key elements in the provisioning for loans and receivables under AASB 9 include:</p> <ul style="list-style-type: none"> • the judgements applied in determining customers that have had a significant increase in credit risk, which is assessed by 	<p>We have performed the following procedures amongst others:</p> <ul style="list-style-type: none"> • examined the key assumptions in the ECL model developed by the Group, such as the staging, PDs and LGDs, focussing on changes to assumptions made during the year • assessed the accuracy of the delinquency and hardship status and the resulting staging applied at a customer account level by comparing the hardship status to supporting documentation, re-performing the delinquency status calculation and re-performing the stage assignment on a sample basis • assessed the integrity of the input data used in the ECL model by comparing key data inputs to signed customer contracts and source systems on a sample basis



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>the Group based on the delinquency or hardship status at a customer account level</p> <ul style="list-style-type: none"> • judgements applied in setting the assumptions used in the ECL model, such as the probability of default (PDs) and loss given default (LGDs) • the impact of write-offs made during the year to the data used to determine the modelled PDs and LGDs • the judgements applied in assessing the impact of COVID-19 on expected losses of the Group's receivables given the absence of historical data and uncertainty of the duration and severity of the economic recovery • the judgements applied in developing macroeconomic scenarios and their associated weightings given the wide range of potential economic outcomes and impacts from COVID-19 that may impact future expected credit losses • the judgements applied in developing other reserves and overlays included to reflect emerging trends or particular situations which are not otherwise captured by the ECL model. 	<ul style="list-style-type: none"> • considered the accuracy of the modelled provision for impairment held by the Group by re-performing the modelled ECL calculation on a portfolio basis • together with PwC credit modelling experts, assessed the reasonableness of the COVID-19 overlay by assessing the methodology adopted by the Group, the reasonableness of the scenarios developed, mathematical accuracy of the calculation and accuracy of key input data on a sample basis • together with PwC credit modelling experts, assessed the reasonableness of forward-looking information incorporated into the impairment calculations by assessing the appropriateness of the forecasts, assumptions and probability weightings applied in the multiple economic scenarios, and comparing on a sample basis against supporting evidence where applicable • obtained an understanding of and evaluated the appropriateness of the other reserves and overlays applied • assessed the appropriateness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards.
<p><i>Net realisable value of inventory</i> (refer to note 4) [\$7.9m]</p> <p>This was a key audit matter because of the judgement applied by the Group in determining the net realisable value of inventory.</p> <p>As described in note 1 to the financial statements, inventories are valued at the lower of cost and net realisable value. The Group recognises a provision where it expects the net realisable value of inventory to fall below its cost price.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • inventory counts across a sample of items and locations • assessed the Group's inventory provisioning policy by considering the levels of aged inventory and the Group's inventory clearance strategy • consideration of post-balance sheet date events in providing corroborating evidence,



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>This will occur where inventory becomes aged, damaged or obsolete and will be sold below its cost price in order to clear. The Group develops estimates for these factors based on historical experience in determining the net realisable value the Inventory.</p> <p>The Group took a further write-down to Inventory, taking into consideration the decision to permanently close the Radio Rentals stores that was announced post year-end.</p>	<p>on a sample basis, in respect of the valuation of the inventory as at the year-end.</p>
<p><i>Carrying value of leases as lessee under transition to AASB 16 Leases</i> (Refer to notes 1 and 8) [\$om]</p> <p>This was a key audit matter because it was the first period of reporting under Accounting Standard AASB 16 Leases (AASB 16) and the Group has a number of lease arrangements due to its store network for the Radio Rentals business, which required certain judgements to be made on adoption, as well as judgements in the consideration of the valuation of the Group’s Right-of-use asset.</p> <p>The recoverable amount of the Right-of-Use asset was determined through a model based on the Group’s cash flow forecasts from the budget approved by the Board. The most significant judgements related to the assumptions supporting the underlying cash flows, in particular, revenue growth rates, terminal growth rates and discount rate.</p> <p>The Group identified upon transition to AASB 16 and in consideration of the impairment results from the previous year, that the Right-of-Use asset was impaired and written down to nil. The impairment continued to exist at year-end and the addition of any new assets during the year were written down to nil.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • testing the accuracy of key data inputs to the lease liability and right-of-use asset calculations by comparing to lease agreements on sample basis • testing the accuracy of the lease liability and right-of-use asset by reperforming the calculations on a sample basis • assessing the reasonableness of key judgments used and appropriateness of the practical expedients applied by the Group in computing the lease liability and right-of-use asset • evaluating the methodology applied in the impairment assessment conducted • assessing certain underlying data used in determining the carrying value and recoverable amount of the Right-of-Use asset • consideration of post-balance sheet date events in providing corroborating evidence on the valuation of the right-of-use asset.
<p><i>Operation of IT systems and controls</i></p> <p>The Group is dependent on its IT systems for the processing and recording of significant volumes of transactions.</p>	<p>We evaluated the design and implementation of key controls over relevant IT systems, which included assessing: the governance of the Group’s technology control environment, IT change management</p>



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>This was a key audit matter because a number of key financial controls we seek to rely on are related to IT systems and automated controls.</p> <p>Controls relating to the management of IT systems are important because they are intended to ensure changes to applications and data are appropriately implemented and authorised. Ensuring staff have appropriate access to IT systems and that access is monitored are key controls in mitigating the potential for fraud or error as a result of underlying changes to an application or data.</p>	<p>controls, security and access controls, system development controls and IT operations controls.</p> <p>Based on the results of our IT control design assessment, we were required to carry out additional direct testing, on a sample basis, over the accuracy of relevant data inputs, automated calculations and reports in order to obtain sufficient evidence for our audit.</p>

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 21 of the directors' report for the year ended 31 March 2020.

In our opinion, the remuneration report of Thorn Group Limited for the year ended 31 March 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in black ink that reads "M. Laithwaite".

Marcus Laithwaite
Partner

Sydney
29 May 2020

SHAREHOLDER INFORMATION

DISTRIBUTION OF SHAREHOLDERS AS AT 30 JUNE 2020

Fully Paid Ordinary Shares (Total)			
	Total Holders	Shares	% issued capital
1 - 1,000	1,171	554,424	0.17
1,001 - 5,000	1,828	5,195,229	1.61
5,001 - 10,000	881	6,881,651	2.13
10,001 - 100,000	1,306	41,411,216	12.83
100,001 - 9,999,999,999	216	268,771,865	83.26
Rounding			0.00
Total	5,402	322,814,385	100.00

MARKETABLE PARCELS AS AT 30 JUNE 2020

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.0840 per unit	5,953	3,112	6,368,337

THE NAMES OF THE SUBSTANTIAL SHAREHOLDERS LISTED IN THE COMPANY'S REGISTER AS AT 30 JUNE 2020

Rank	Top Investors		% Issued Capital
1	ICM Limited	99,113,147	30.70%
2	Forager Funds Management Pty Ltd	49,667,435	15.39%
3	Investors Mutual Limited	23,225,115	7.19%

VOTING RIGHTS

The Company only has ordinary shares on issue. Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

UNQUOTED EQUITY SECURITIES

On 1 July 2020, there were 2,790,783 unlisted Performance Rights on issue held by 5 different persons.

SHAREHOLDER INFORMATION

20 LARGEST SHAREHOLDERS – ORDINARY SHARES AS AT 30 JUNE 2020

Rank	Top Investors		% Issued Capital
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	123,866,901	38.37
2.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	52,854,596	16.37
3.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,616,096	1.43
4.	ACE PROPERTY HOLDINGS PTY LTD	3,600,000	1.12
5.	MRS TRACEY LEE CUNNINGHAM <THE AVEBURY FAMILY A/C>	3,157,500	0.98
6.	CITICORP NOMINEES PTY LIMITED	3,040,027	0.94
7.	GLIOCAS INVESTMENTS PTY LTD <GLIOCAS GROWTH FUND A/C>	2,648,595	0.82
8.	MAST FINANCIAL PTY LTD <A TO Z INVESTMENT A/C>	2,563,562	0.79
9.	VANWARD INVESTMENTS LIMITED <EQUITIES A/C>	2,462,450	0.76
10.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	2,129,076	0.66
11.	JET INVEST PTY LTD <R & L INVESTMENT A/C>	2,000,000	0.62
12.	MR HONGBIN CHEN	1,708,100	0.53
13.	MR SUNNY YANG + MRS CONNIE YANG <YANG'S FAMILY A/C>	1,571,453	0.49
14.	DAWNEY & CO LTD	1,500,000	0.46
15.	MR KIM BEE TAN + MRS VERNA SUJAT WAH TAN <PERFECT PAIR SUPER FUND A/C>	1,500,000	0.46
16.	REDBROOK NOMINEES PTY LTD	1,400,000	0.43
17.	MR JASON BRADLEY WHELAN	1,349,466	0.42
18.	BRAZIL FARMING PTY LTD	1,300,000	0.40
19.	MR MIROSLAV MICHAEL PETROVIC	1,200,000	0.37
20.	MR TIMOTHY JAMES LUCE	1,197,606	0.37
Totals: Top 20 Holders Of Ordinary Fully Paid Shares (Total)		215,665,428	66.81
Total Remaining Holders Balance		107,148,957	33.19

There are 322,814,385 fully paid ordinary shares on issue, all of which are listed on the Australian Securities Exchange.

SHAREHOLDER INFORMATION

NON-EXECUTIVE DIRECTORS

Warren McLeland

Chairman, Non-Executive Director

Allan Sullivan

Non-Executive Director

Kent Bird

Non-Executive Director

Paul Oneile

Non-Executive Director

COMPANY SECRETARY

Alexandra Rose

REGISTERED OFFICE

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