# Thorn Group Limited

ABN 54 072 507 147

## APPENDIX 4D

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

## HALF-YEAR ENDED 30 SEPTEMBER 2021

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

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

Current period: 1 April 2021 to 30 September 2021
Previous corresponding period: 1 April 2020 to 30 September 2020

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| Six months ended | 30 Sep 2021 $'000s | 30 Sep 2020 $'000s | % Change |
|---|---|---|---|
| Revenue from ordinary activities – Continuing operations | 30,007 | 58,791 | Down 49.0% |
| Profit/(loss) from continuing operations, net of tax | 13,295 | (1,083) | nm |
| Profit / (loss) from discontinued operations, net of tax | - | - | nm |
| Reported statutory profit / (loss) after tax | 13,295 | (1,083) | nm |

An explanation of the above figures, a commentary on the financial performance and position, and other Appendix 4D disclosures can be found in the condensed consolidated financial statements for the six months ended 30 September 2021. This information should be read in conjunction with the 2021 Annual Financial Report of Thorn Group Limited.

| DIVIDENDS | Amount per ordinary share | Franked amount per ordinary share |
|---|---|---|
| 2021 final dividend | 1 cent | 1 cent |
| 2022 interim dividend (resolved, not yet provided at 30 September 2021) | Nil | Nil |

| NET TANGIBLE ASSETS | 30 Sept 2021 | 30 Sept 2020 |
|---|---|---|
| Net tangible assets per ordinary share | 31 cents | 33 cents |

# Condensed Consolidated Financial Statements

## for the six months ended 30 September 2021

ACN 072 507 147

## CONTENTS

The directors present their report together with the condensed consolidated financial statements of Thorn Group Limited (the 'Company') and its controlled entities (together referred to as 'Thorn', the 'Group', or the 'consolidated entity') for the six months ended 30 September 2021 and the auditor's review report thereon.

## DIRECTORS

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

***Non-Executive***

Warren McLeland
Paul Oneile
Allan Sullivan

## OPERATING AND FINANCIAL REVIEW

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

Revenue from continuing operations fell 49% on the previous corresponding period ("pcp") from $58.8m to $30.0m, and the net profit after tax ("NPAT") improved from a $(1.1)m loss to a $13.3m profit.

***Financial performance***

| $m | Segment revenue | | Segment EBIT to NPAT | |
|---|---|---|---|---|
| **Half year ended 30 September** | **2022** | **2021** | **2022** | **2021** |
| Consumer Leasing | 19.6 | 40.9 | 5.0 | 11.4 |
| Business Finance | 10.4 | 17.9 | 15.6 | (0.9) |
| Corporate | - | - | (3.7) | (4.3) |
| Significant items | - | - | - | (0.6) |
| **Sub-total** | 30.0 | 58.8 | 16.9 | 5.6 |
| Net interest expense | | | (3.6) | (6.7) |
| **Profit /(Loss) before tax** | | | **13.3** | **(1.1)** |
| Tax expense | | | - | - |
| **Profit /(Loss) after tax from continuing operations** | | | **13.3** | **(1.1)** |
| Profit /(Loss) from discontinued businesses after tax | | | - | - |
| **Net profit (loss) after tax** | | | **13.3** | **(1.1)** |

*Consumer Leasing (Radio Rentals)*

Installation volumes for the half year of 4,284 units compared to 1,028 in the half year to 31 March 2021 and 4,318 units in the corresponding half year to 30 September 2020. Under the new dropship arrangements, gross sales revenue and cost of sales are no longer recognised. Instead, a net amount disclosed as a "net agency fee" is presented. This is equivalent to gross margin inclusive of direct costs such as any externally acquired warranties.

Interest revenue fell 49% from $33.6m to $17.1m as the receivables book continues to reduce.

The credit provision was $31.3m at 30 September 2020, $29.3m[1] at 31 March 2021 and is now $18.5m[1] at 30 September 2021. The result includes a $6.9m credit to the profit or loss statement from the COVID-19 provision as the provision unwinds with the reduction in the book. Arrears over 30 days outstanding finished at 9.3% compared to 15.0% at 31 March 2021 and 11.1% recorded on 30 September 2020.

In the face of reduced revenue, the costs of the division were reduced. Costs other than impairment reduced by $7.9m driven by a combination of reductions in the cost of goods sold (due to new accounting treatment), staff costs and other expenses.

EBIT was a $5.0m profit (pcp: $11.4m profit)

[1] The statutory credit provision in note 7 includes some other small sundry balances.

*Business Finance*

The Business Finance division ceased originations in February 2021. The gross receivables book reduced to $135.1m from $192.5m at 31 March 2021 and from $264.6m on 30 September 2020.

Revenue follows book size, so revenue reduced by $7.5m to $10.4m (pcp: $17.9m).

At 30 September 2021 $51.6m of receivables were identified as COVID-19 impacted. 15.2% of these by value were greater than 30 days in arrears. Total greater than 30 day arrears on all receivables were 10.0% at 30 September 2021, 8.6% at 31 March 2021 and 34.2% at 30 September 2020.

Impairment expenses were a $9.9m credit compared to a $13.6m debit/expense in the pcp, a favourable variance of $23.5m. $20.9m of the variance was caused by COVID-19 provisioning, which was a $9.5m credit in the current period, and an $11.4m debit/expense in the pcp arrears have improved dramatically over the last 12 months.

Excluding the impact of COVID-19 provisioning, impairment expense is a $0.4m credit, compared to a $2.2m expense in the prior period. This has been driven by lower arrears, lower write-offs and better recoveries on the part of the receivable book, which has not been impacted by COVID-19.

Operating expenses excluding impairment were up slightly at $5.4m (pcp: $4.7m).

As a result of the above, EBIT increased from $(0.9)m loss to $15.6m profit.

*Corporate*

Corporate expenses, excluding significant items, decreased from $4.3m to $3.7m due to continued cost reductions in line with the reduction in the revenue of the business.

*Significant items*

There were no significant items in the current reporting period.

In the pcp the Group incurred $0.6m of exceptional items, comprising $1.9m in JobKeeper grants received offset by $2.5m of costs related to the closure of the store network; redundancy costs of $3.5m and IT-related costs of $0.7m offset by a $1.7m net gain on exiting the majority of the Group's lease obligations.

*Interest expense*

Net borrowing costs decreased by 46.3% to $3.6m (pcp: $6.7m), driven by reduced warehouse debt.

*Earnings per share*

Earnings per share for the continuing operations for the period was a 3.9 cents per share profit compared to a loss of (0.3) cents for the prior corresponding period.

### *Financial position*

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

| **Summarised financial position** | **30 September 2021** | | **31 March 2021** | | **30 September 2020** | |
|---|---|---|---|---|---|---|
| **$m** | **excl. Trust** | **incl. Trust** | **excl. Trust** | **incl. Trust** | **excl. Trust** | **incl. Trust** |
| Cash at bank | 72.9 | 91.6 | 68.3 | 88.0 | 60.7 | 79.5 |
| Receivables | 41.2 | 137.7 | 55.0 | 196.6 | 81.9 | 290.6 |
| Investment in unrated notes | - | - | - | - | - | - |
| Inventory and other assets | 6.3 | 6.3 | 3.1 | 3.1 | 1.6 | 1.6 |
| Investments | 1.0 | 1.0 | 1.0 | 1.0 | - | - |
| **Total Assets** | **121.4** | **236.6** | **127.4** | **288.7** | **144.2** | **371.6** |
| Borrowings | - | 106.5 | - | 166.3 | - | 236.0 |
| Other liabilities | 21.2 | 23.5 | 23.6 | 27.3 | 29.8 | 29.8 |
| **Total Liabilities** | **21.2** | **130.0** | **23.6** | **193.6** | **29.8** | **265.8** |
| **Total Equity** | **100.2** | **106.6** | **103.8** | **95.1** | **114.4** | **105.8** |
| Gearing (net debt/equity) (i) | | 31.5% | nm | 103.0% | nm | 165.7% |
| Return on Equity (ii) | | 13.2 | | 8.4% | | (1.0%) |

(i) Gearing is calculated as net debt less free cash divided by closing equity. If there is more free cash than corporate debt then the number is not meaningful ("nm").
(ii) ROE is calculated as NPAT divided by the average of opening and closing equity.

#### *Cash at bank*

The cash amount includes the free cash available to the Group plus the tied cash held within the warehouse. At 30 September 2021, free cash was $72.9m and tied cash was $18.7m. Free cash has increased as a result of the collection of the existing receivables books and the reduction in originations.

#### *Receivables*

The balance (including the warehouse trust) consists of consumer leasing receivables and business finance receivables. All are stated as their gross amount less unearned interest, less a provision for expected credit losses.

The Consumer Leasing receivables gross balance reduced by $23.2m to $54.1m (March 2021: $77.3m) due to lower originations. The provision reduced by $10.8m to $18.5m (March 2021: $29.3m). The $10.8m reduction included a $6.9m reduction in the COVID-19 provision, which is now $8.0m. The net receivables balance reduced by $12.4m to $35.6m (March 2021: $48.0m).

The Business Finance receivables gross balance reduced by $57.4m to $135.1m (March 2021: $192.5m) due to the ceasing of originations. The provision decreased by $11.1m to $(33.9m) (March 2021: $(45.0m)) driven by the run-off of the book and a $9.5m release in the COVID-19 provision which is now $22.2m. The net receivables balance reduced by $46.3m to $101.2m (March 2021: $147.5m).

In the table above, the columns which exclude the warehouse trust remove the Business Finance receivables and related provisions held in the warehouse[2].

#### *Investment in unrated notes*

This balance represents the carrying value of notes held by the Group in the securitised warehouse.

[2] The statutory credit provision in note 7 also includes provisions related to receivables held outside the warehouse.

*Borrowings*
Warehouse borrowings were paid down by $59.8m to $106.5m (March 2021: $166.3m) during the period.

*Other liabilities*
The other liabilities remain relatively stable at $23.5m.

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

| $m | 30 September 2021 | 31 March 2021 |
|---|---|---|
| Secured Corporate Loan Facilities A and B | N/A | N/A |
| Securitised Warehouse Facility | 106.5 | 166.3 |
| **Total loan facilities** | **106.5** | **166.3** |

***Corporate facilities***

Both Corporate Loan Facilities A and B were cancelled following the repayment in the 2021 financial year.

***Securitised Warehouse facility***

Thorn Business Finance is financed by a securitised warehouse facility ("the warehouse") with senior notes held by a major Australian bank, mezzanine notes held by a major Australian financial services company, and equity class F notes held by Thorn.

The warehouse facility is secured by rentals and payments receivable from the underlying 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).

The amounts expected to be due and payable on the warehouse 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 down for as long as the underlying receivables are payable.

In the prior year, it was determined that there was a breach of one of the compliance parameters in the warehouse, which requires no more than 6% of the balances to be in arrears by more than 30 days. This was attributable to the increasing presence of COVID-19 affected customers, many of whom had requested a payment holiday and had stopped repayments under their leases. This breach put the warehouse into run-off under its amortisation rules. As a result, Thorn was unable to sell originations into the warehouse, and the distributions it normally receives via the waterfall distribution mechanism were redirected to pay down the noteholders in order of seniority while the breach persisted. During the same period, Thorn reached an agreement with its funders to allow Thorn to vary contracts with certain COVID-19 affected customers. These variations were implemented and completed by the end of the prior year.

As a result of the amendments made to the funding arrangements, which allowed us to undertake variations, Thorn cannot originate new leases through the warehouse until further agreement is reached.

At 30 September 2021, the relevant arrears number was 6.09% (this number does not take into account receivables that have been written off).

## RISKS

The major risks faced by the Group include the following:

- Credit and payment risk as the majority of the Group's assets (circa 58%) are monies owing from individual consumers and small and medium businesses.
- Regulatory and legal risk in relation to compliance with and changes to laws, regulations, licenses, authorisations, or government policies, including specifically the Federal Government's consideration of proposed new consumer leasing legislation.
- Loss of customers, brokers, white label partners and other key business relationships.
- Technology, IT systems, and cyber risks.
- Insurance risks, given the hardening market for Directors and Officers insurance, cyber and professional indemnity cover.
- Liquidity and refinancing risks as the Group continues to face pressure on the availability of suitable funding arrangements and compliance with the associated covenants, terms and conditions contained in any facility documentation.
- Operational and compliance risk has been a focus with the rollout of the new online origination, credit assessment platform and related processes, and the implementation of new technology in the credit and operational process.
- Interest rate risk as the Group's borrowings have short term variable interest rates while its assets have longer-term fixed interest rates. To mitigate this risk, the Group hedges the majority of the interest rate risk in the warehouse facility.

## REGULATORY MATTERS

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.

## SUBSEQUENT EVENTS

The Consumer Leasing (trading as Radio Rentals) division leases household products to the consumer market with contracts ranging from 1-60 months.

On 30 November 2021, Thorn entered into a binding asset sale deed with Credit Corp Group Limited (CCG) under which Thorn will sell, assign or novate, and the Purchaser acquire, Radio Rentals and the property, rights and assets of the Radio Rentals business. The transaction is currently expected to close in mid-December but could close later. Estimated sales proceeds of approximately $45million are expected.

A number of elements of the transaction are yet to be finalised, primarily relating to employees. As a result, at the date of signing, Thorn is currently unable to provide an estimated profit on sale.

In addition, as a result of the uncertainties noted above, it is not currently possible to provide the full estimated impact on the condensed consolidated financial statements for the six months ended 30 September 2021.

### *Contingent Liability*

Thorn is undergoing legal proceedings in relation to a disputed property lease (Thorn Australia Pty Ltd ats Centuria Property Funds Ltd). Thorn sought a declaration from the Supreme Court to the effect that it had not entered into a binding lease in respect of commercial premises in Eveleigh. The matter was heard on 13 September 2021 and judgement was delivered in Thorn's favour on 27 September 2021. Thorn was served with a Notice of Appeal on 21 October 2021. The matter is being defended, and no provision has been taken. Legal fees are and will continue to be incurred defending the matter. A bank guarantee has been provided to Centuria for a value of $1.1m. Thorn has provided cash collateral for this guarantee to its bank. The collateral is recognised in prepayments and other assets.

## 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.

### AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration, as required by section 307C of the Corporations Act 2001, is included on page 8.

### ROUNDING

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

Dated at Sydney, 30 November 2021.

Signed in accordance with a resolution of the directors.

**Warren McLeland**

*Chairman*

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhnsyd.com.au
www.uhyhnsydney.com.au

**Auditor's Independence Declaration**

As lead auditor for the review of Thorn Group Limited for the half year ended 30 September 2021, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

UHY Haines Norton

**Mark Nicholaeff**
Partner
Sydney
Dated: 30 November 2021

**UHY Haines Norton**
Chartered Accountants

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 September 2021

| $'000 AUD | Notes | 30 September 2021 | 30 September 2020 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales revenue | | - | 4,978 |
| Interest revenue | | 27,407 | 51,306 |
| Other income | | 2,600 | 2,507 |
| **Revenue** | | **30,007** | **58,791** |
| | | | |
| Finance lease cost of sales | | - | (4,370) |
| Net agency fees | | (132) | - |
| Employee benefit expense | | (12,901) | (17,736) |
| Impairment losses on loans and receivables | | 13,745 | (19,126) |
| Marketing expenses | | (2,739) | (554) |
| Property expenses | | (266) | (1,161) |
| Transport expenses | | (265) | (947) |
| Communication & IT expenses | | (4,404) | (3,192) |
| Printing, stationery and postage | | (384) | (727) |
| General Insurance | | (1,307) | (1,043) |
| Impairment of inventory | | (86) | (837) |
| Legal expenses | | (993) | (1,157) |
| Servicing and maintenance expense | | (774) | (1,540) |
| External consultancy expense | | (486) | (131) |
| Bank fees | | (391) | (639) |
| Other expenses | | (1,476) | (1,593) |
| Net gain on modification of lease liability | | - | 1,670 |
| Impairment of intangibles & property, plant and equipment | | (208) | (112) |
| **Total operating expenses** | | **(13,067)** | **(53,194)** |
| **Earnings before interest and tax ("EBIT")** | | **16,940** | **5,596** |
| Finance expenses | | (3,645) | (6,679) |
| **Profit/(loss) before tax** | | **13,295** | **(1,083)** |
| Income tax | | - | - |
| **Profit/(loss) after tax from continuing operations** | | **13,295** | **(1,083)** |
| **Other comprehensive income - items that may be reclassified subsequently to profit or loss** | | | |
| Cash flow hedge reserve movements | | 1,376 | 1,016 |
| Income tax | | - | - |
| **Other comprehensive income for the year** | | **1,376** | **1,016** |
| | | | |
| **Total comprehensive income/ (loss)** | | **14,671** | **(67)** |
| **Earnings per share** | | | |
| Basic earnings per share (cents) | | 3.9 | (0.3) |
| Diluted earnings per share (cents) | | 3.9 | (0.3) |

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2021

| $'000 AUD | Note | 30 September 2021 | 31 March 2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 91,594 | 88,045 |
| Trade and other receivables | 7 | 56,676 | 67,093 |
| Prepayments and other assets | | 6,044 | 2,935 |
| Inventories | | 240 | 128 |
| Income tax receivable | | - | - |
| **Total current assets** | | **154,554** | **158,201** |
| Trade and other receivables | 7 | 80,989 | 129,549 |
| Deferred tax assets | | - | - |
| Right of use asset | 8 | - | - |
| Financial assets at fair value through other comprehensive income | | 1,000 | 1,000 |
| Property plant and equipment | | - | - |
| **Total non-current assets** | | **81,989** | **130,549** |
| **Total assets** | | **236,543** | **288,750** |
| **Liabilities** | | | |
| Trade and other payables | | 13,504 | 15,723 |
| Lease liability | | 421 | 507 |
| Loans and borrowings | 9 | 57,333 | 78,203 |
| Employee benefits | | 3,891 | 3,951 |
| Provisions | | 2,360 | 1,944 |
| **Total current liabilities** | | **77,509** | **100,328** |
| Loans and borrowings | 9 | 49,209 | 88,100 |
| Lease liability | | 90 | 427 |
| Employee benefits | | 171 | 170 |
| Derivative financial instruments | 10 | 2,345 | 3,721 |
| Provisions | | 670 | 870 |
| **Total non-current liabilities** | | **52,485** | **93,288** |
| **Total liabilities** | | **129,994** | **193,616** |
| **Net assets** | | **106,549** | **95,134** |
| **Equity** | | | |
| Issued capital | 11 | 158,021 | 157,843 |
| Reserves | 11 | 3,125 | (3,492) |
| Retained earnings | | (54,597) | (59,217) |
| **Total equity** | | **106,549** | **95,134** |

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

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2021

| $'000 AUD | Note | Share capital | Reserves | Retained earnings | Total Equity |
|---|---|---|---|---|---|
| **Balance at 1 April 2020** | | **155,255** | **(5,912)** | **(43,569)** | **105,775** |
| **Total comprehensive income** | | | | | |
| Net profit/(loss) for the period | | - | - | (1,083) | (1,083) |
| Other comprehensive income | | - | 1,016 | - | 1,016 |
| **Total comprehensive income** | | **-** | **1,016** | **(1,083)** | **(67)** |
| **Transactions with owners of the company** | | | | | |
| Share-based payment transactions | | - | 100 | - | 100 |
| Total transactions with owners of the company | | - | 100 | - | 100 |
| **Balance at 30 September 2020** | | **155,255** | **(4,796)** | **(44,652)** | **105,808** |

| **$'000 AUD** | **Note** | **Share capital** | **Reserves** | **Retained earnings** | **Total Equity** |
|---|---|---|---|---|---|
| **Balance at 1 April 2021** | | **157,843** | **(3,492)** | **(59,217)** | **95,134** |
| **Total comprehensive income** | | | | | |
| Net profit for the period | | - | 5,351 | 7,944 | 13,295 |
| Other comprehensive income | | - | 1,376 | - | 1,376 |
| **Total comprehensive income** | | **-** | **6,727** | **7,944** | **14,671** |
| **Transactions with owners of the company** | | | | | |
| Minimum holding share buy-back | | (313) | - | - | (313) |
| Issue of shares under dividend reinvestment plan | | 491 | - | - | 491 |
| Share-based payment transactions | | - | (110) | 51 | (59) |
| Dividends to shareholders | | - | - | (3,375) | (3,375) |
| **Total transactions with owners of the company** | | **178** | **(110)** | **(3,324)** | **(3,256)** |
| **Balance at 30 September 2021** | | **158,021** | **3,125** | **(54,597)** | **106,549** |

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

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 September 2021

| $'000 AUD | 30 September 2021 | 30 September 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from customers (excluding interest) | 85,825 | 101,933 |
| Interest revenue received | 27,407 | 51,728 |
| Cash received from the liquidation of inventory | - | 5,362 |
| Cash paid to suppliers and employees | (37,033) | (38,732) |
| Acquisition of inventory | (5,182) | (4,960) |
| Equipment finance originations | - | (4,854) |
| **Cash generated from operations** | **71,017** | **110,477** |
| Net borrowing costs | (3,711) | (6,843) |
| Income tax refund / (paid) | - | 3,051 |
| **Net cash generated / (used) from operating activities** | **67,306** | **106,685** |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment and software | (99) | - |
| **Net cash used in investing activities** | **(99)** | **-** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | - | 11,339 |
| Repayment of borrowings | (59,760) | (80,839) |
| Repayment of lease liabilities | (701) | (7,314) |
| Net proceeds from movements in issued capital | 178 | - |
| Dividends paid | (3,375) | - |
| **Net cash (used) / generated from financing activities** | **(63,658)** | **(76,814)** |
| | | |
| Net increase in cash and cash equivalents | 3,549 | 29,871 |
| Cash and cash equivalents at 1 April | 88,045 | 49,619 |
| **Cash and cash equivalents at 30 September** | **91,594** | **79,490** |

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

## 1. REPORTING ENTITY

Thorn Group Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 September 2021 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements of the Group for the year ended 31 March 2021 are on the Company's website www.thorn.com.au.

## 2. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated annual financial statements of the Group for the year ended 31 March 2021.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 November 2021.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new and amended accounting standards as set out below.

### *3.1 NEW ACCOUNTING STANDARD*

The AASB has issued AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2, which is an amendment in response to the IBOR reforms. The reform provides an amendment to AASB 9, 139, 7 and 16. The standard is effective for the current reporting period. The amendments are not expected to have a material impact on the Group.

### *3.2 APPLICATION OF EXISTING ACCOUNTING STANDARDS FOR THE FIRST TIME*

Due to the changes in how we acquire and deliver the leased items to our customers in the Consumer Leasing Division, we no longer recognise sales revenue and cost of sales on a gross basis. As we are now acting as an agent, we recognise a net agent fee which comprises the gross margin on the leased item as well as any direct costs associated with the delivery of the item. As a result, for the 6 months ended 30 September 2021, the sales revenue ($4.2m) and finance lease cost of sales ($4.3m) have been shown as a net agency fee of ($0.1m).

### *3.3 RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION*

The comparative information in the statement of profit or loss and other comprehensive income have been reclassified consistent with the presentation adopted in the 31 March 2021 financial statements.

- Further subdivision of other expenses into five extra expense categories; general insurance ($1,043,000), impairment of inventory ($837,000), service and maintenance expense ($1,540,000), external consultancy expense ($131,000) and bank fees ($639,000).
- Reclassification of loss incurred due to the sale of inventory to family and friends during the closure of Radio Rental stores. This resulted in an increase of $992,000 in other income and a corresponding decrease for the same amount in finance lease cost of sales.

### *3.4 SIGNIFICANT EVENTS DURING THE REPORTING PERIOD*

There are no other significant events that have had a material impact on the results of the Group.

### *3.5 ESTIMATES*

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 March 2021.

### *3.6 EXPECTED CREDIT LOSSES*

**Macroeconomic Scenarios**

The methodology applied for both divisions is consistent with that applied at 31 March 2021. Forward-looking macro-economic overlays, including scenario weightings, have been determined on a consistent basis to those applied at 31 March 2021.

**Impact of COVID-19 pandemic**

The full impact of the COVID-19 pandemic is uncertain at the balance date for the Consumer Leasing division as the Group has yet to see the anticipated increase in delinquencies which would flow through to the modelled expected loss provision. We are of the view that the expected impact has not yet materialised over the past 18 months, primarily as a result of the national and local government stimulus, measures taken to support the economy and customer behaviour during lockdown. We expect the withdrawal of the stimulus and the exiting of lockdown to have a significant impact on our receivables book and that the expected deterioration may occur post 30 September 2021. Therefore the Group continues to specifically consider the likely industry-specific and retail customer impacts through an overlay.

At 30 September 2021 $51.6m of Business Finance receivables were identified as COVID-19 impacted. Out of these, 15.2% by value were greater than 30 days in arrears at the balance date. $33.8m received a variation in 2021. While the arrears of the $33.8m have improved significantly in the last 12 months and varied contracts have had positive payment patterns post variation, the recent lockdowns have resulted in continued high arrears in the COVID-19 impacted cohort (15.2%). As a result, their arrears status has not been considered appropriate to use in the current arrears based modelled provision. At 30 September 2021, $11.6m was in stage 1, $35.8m in stage 2 and $4.2m in stage 3. This overlay is, therefore, a standalone provision estimate for the impact of COVID-19 on the Business Finance division.

The outcome of this is a $22.2m provision for the Business Finance Division and an $8.0m provision for the Consumer Leasing Division. The reductions, $9.5m for Business Finance and $6.9m for Consumer Leasing, have resulted in a net credit to the Income Statement of $16.4m and have been driven by the reduction in the division’s receivables.

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

## 4. FINANCIAL INSTRUMENTS

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

## 5. 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 and the Business Finance division.

Segment performance is evaluated based on operating profit or loss.

| 30 September 2021 $'000 AUD | Consumer Leasing | Business Finance | Corporate | Consolidated |
|---|---|---|---|---|
| Sales revenue | - | - | - | - |
| Interest revenue | 17,103 | 10,304 | - | 27,407 |
| Other | 2,510 | 90 | - | 2,600 |
| **Total segment revenue** | **19,613** | **10,394** | **-** | **30,007** |
| Operating expenses | (14,608) | 5,231 | (3,482) | (12,859) |
| **EBITDA** | **5,005** | **15,625** | **(3,482)** | **17,148** |
| Depreciation and amortisation | - | - | - | - |
| Impairment | (15) | - | (193) | (208) |
| **EBIT** | **4,990** | **15,625** | **(3,675)** | **16,940** |
| Finance expense | (25) | (3,620) | - | (3,645) |
| **Profit/(loss) before tax** | **4,965** | **12,005** | **(3,675)** | **13,295** |
| Segment assets | 42,731 | 119,886 | 73,926 | 236,543 |
| Segment liabilities | (19,582) | (110,411) | - | (129,993) |

| 30 September 2020 $'000 AUD | Consumer Leasing | Business Finance | Corporate | Consolidated |
|---|---|---|---|---|
| Sales revenue | 4,978 | - | - | 4,978 |
| Interest revenue | 33,565 | 17,741 | - | 51,306 |
| Other | 2,399 | 108 | - | 2,507 |
| **Segment revenue** | **40,942** | **17,849** | **-** | **58,791** |
| Operating expenses | (31,363) | (18,974) | (2,746) | (53,083) |
| **EBITDA** | **9,579** | **(1,125)** | **(2,746)** | **5,708** |
| Depreciation and amortisation | - | - | - | - |
| Impairment | - | - | (112) | (112) |
| **EBIT** | **9,579** | **(1,125)** | **(2,858)** | **5,596** |
| Finance expense | (692) | (5,987) | - | (6,679) |
| **Profit/(loss) before tax** | **8,887** | **(7,112)** | **(2,858)** | **(1,083)** |
| Segment assets | 80,391 | 229,299 | 61,944 | 371,634 |
| Segment liabilities | (23,911) | (241,915) | - | (265,826) |

## 6. CASH AND CASH EQUIVALENTS

| $'000 AUD | 30 September 2021 | 31 March 2021 |
|---|---|---|
| Bank balances | 91,594 | 88,045 |
| Call deposits | - | - |
| Cash and cash equivalents | **91,594** | **88,045** |

Included in cash is an amount of $18,668,000 (2021: $19,745,000) held within the warehouse trust and, as such, is under the control of the Trustee. Within this balance, $5,351,000 is held in an excess spread reserve account as collateral. Free cash is therefore $72,926,000 (2021: $68,300,000).

## 7. TRADE AND OTHER RECEIVABLES

| $'000 AUD | 30 September 2021 | 31 March 2021 |
|---|---|---|
| **Current** | | |
| Trade receivables | 5,366 | 6,932 |
| Finance lease receivables | 27,500 | 30,719 |
| Loan receivables | 23,810 | 29,442 |
| | **56,676** | **67,093** |
| **Non-current** | | |
| Finance lease receivables | 35,615 | 57,860 |
| Loan receivables | 45,374 | 71,689 |
| | **80,989** | **129,549** |
| **Total trade and other receivables** | **137,665** | **196,642** |

Trade receivables and loan receivables are stated at their amortised cost less provision for impairment losses. 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.

### *Provision for impairment losses*

*Consumer Leasing lease receivables*

| $'000 AUD | Gross September 2021 | Impairment Provision | Gross March 2021 | Impairment Provision |
|---|---|---|---|---|
| Stage 1 | 50,191 | (14,580) | 69,504 | (21,509) |
| Stage 2 | 2,863 | (2,863) | 4,795 | (4,795) |
| Stage 3[3] | 1,174 | (1,174) | 3,033 | (3,033) |
| **TOTAL** | **54,228** | **(18,617)** | **77,332** | **(29,337)** |

*Business Finance lease receivables*

| $'000 AUD | Gross September 2021 | Impairment | Gross March 2021 | Impairment |
|---|---|---|---|---|
| Stage 1 | 26,041 | (1,876) | 39,111 | (2,515) |
| Stage 2 | 11,312 | (5,914) | 15,489 | (7,142) |
| Stage 3[4] | 1,908 | (1,908) | 2,680 | (2,680) |
| **TOTAL** | **39,261** | **(9,698)** | **57,280** | **(12,337)** |

[3] A number of portfolio level provisions have been allocated to the different stages based on the percentage of the receivables book which is in the specific stage. This has resulted in the above presentation.

[4] A number of portfolio level provisions have been allocated to the different stages based on the percentage of the receivables book which is in the specific stage. This has resulted in the above presentation.

*Loan receivables (Business Finance and remaining consumer solar loans)*

| $'000 AUD | Gross September 2021 | Impairment | Gross March 2021 | Impairment |
|---|---|---|---|---|
| Stage 1 | 65,723 | (5,093) | 90,881 | (6,536) |
| Stage 2 | 26,579 | (14,718) | 37,663 | (18,302) |
| Stage 3 | 4,397 | (4,397) | 7,872 | (7,872) |
| **TOTAL** | **96,699** | **(24,208)** | **136,416** | **(32,710)** |

The group has provided a guarantee, to the warehouse trust, against a group of affected trust receivables. The value of the receivables at 30 September 2021 is $23.1m. Upon external independent advice, Thorn has deemed the risk of an outflow of economic resources to be extremely remote and, as such, has estimated the guarantee to have a zero fair value.

## 8. INTANGIBLE ASSETS

| $'000 AUD | Right of use asset | Goodwill | Software | Total |
|---|---|---|---|---|
| **Year ended 31 March 2021** | | | | |
| Opening net carrying amount | - | - | - | - |
| Additions | 109 | - | - | 109 |
| Amortisation charges for the year | - | - | - | - |
| Impairment charges for the year | (109) | - | - | (109) |
| **Closing net book amount** | **-** | **-** | **-** | **-** |
| **At 31 March 2021** | | | | |
| Cost | 17,559 | - | 17,109 | 34,668 |
| Amortisation and Impairment | (17,559) | - | (17,109) | (34,668) |
| **Net book amount** | **-** | **-** | **-** | **-** |

| | | | | |
|---|---|---|---|---|
| **Six months ended 30 September 2021** | | | | |
| Opening net carrying amount | - | - | - | - |
| Additions | 13 | - | - | - |
| Amortisation charges for the period | - | - | - | - |
| Impairment charges for the period | (13) | - | - | - |
| **Closing net book amount** | **-** | **-** | **-** | **-** |
| **At 30 September 2021** | | | | |
| Cost | 17,572 | - | 17,109 | 34,681 |
| Amortisation and impairment | (17,572) | - | (17,109) | (34,681) |
| **Net book amount** | **-** | **-** | **-** | **-** |

## 9. LOANS AND BORROWINGS

| $'000 AUD | 30 September 2021 | 31 March 2021 |
|---|---|---|
| **Current liabilities** | | |
| Secured loans | 57,333 | 78,203 |
| **Non- Current liabilities** | | |
| Secured loans | 49,209 | 88,100 |
| | **106,542** | **166,303** |

Limits and drawings are set out below.

| $'000 AUD | 30 September 2021 | 31 March 2021 |
|---|---|---|
| Securitised warehouse facility limit | 106,542 | 166,303 |
| Utilised | (106,542) | (166,303) |
| **Available headroom** | - | - |
| Total loan facility limits | 106,542 | 166,303 |
| Utilised | (106,542) | (166,303) |
| **Loan facilities not utilised** | - | - |

***Warehouse facility***

Thorn Business Finance is financed by a securitised warehouse facility ("the warehouse") with senior notes held by a major Australian bank, mezzanine notes held by a major Australian financial services company, and equity class F notes held by Thorn.

The warehouse facility is secured by rentals and payments receivable from the underlying 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).

The amounts expected to be due and payable on the warehouse 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 receivables are payable.

In the prior year, it was determined that there was a breach of one of the compliance parameters in the warehouse, which requires no more than 6% of the balances to be in arrears by more than 30 days. This was attributable to the increasing presence of COVID-19 affected customers, many of whom had requested a payment holiday and had stopped repayments under their leases. This breach put the warehouse into run-off under its amortisation rules. As a result, Thorn was unable to sell originations into the warehouse, and the distributions it normally receives via the waterfall distribution mechanism were redirected to pay down the noteholders in order of seniority while the breach persisted. During the same period, Thorn reached an agreement with its funders to allow Thorn to vary contracts with certain COVID-19 affected customers. These variations were implemented and completed by the end of the prior year.

As a result of the amendments made to the funding arrangements, which allowed us to undertake variations, Thorn cannot originate new leases through the warehouse until further agreement is reached.

At 30 September 2021, the relevant arrears number was 6.09% (this number does not take into account receivables that have been written off).

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

Thorn has entered into an interest rate swap, a derivative contract, to hedge its interest rate risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The full fair value of a hedging derivative is classified as a non-current liability as the remaining maturity of the hedged item is more than 12 months from 30 September 2021.

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

The interest rate swap creates a cash flow hedge against the variable interest payments on the securitised warehouse facility. The movement in the fair value of the interest rate swap is recognised through Other Comprehensive Income and in Reserves in the Statement of Changes in Equity.

| **$'000 AUD** | **30 September 2021** | **31 March 2021** |
|---|---|---|
| Interest rate swap liability | 2,345 | 3,721 |

## 11. CAPITAL AND RESERVES

| ***Number of shares*** | **30 September 2021** | **31 March 2021** |
|---|---|---|
| On issue at the beginning of the period | 339,188,085 | 322,350,132 |
| Minimum holding share buy-back | (1,693,852) | 16,837,953 |
| Issue of shares under dividend reinvestment plan | 2,398,077 | - |
| | **339,892,310** | **339,188,085** |

### *Dividends*

| | Six months ended 30 September 2021 | | |
|---|---|---|---|
| | **Cents per share** | **Total $'000s** | **Date paid / payable** |
| **Recognised Amounts** | | | |
| Final Dividend | 1.0 | 3,375 | 21st July 2021 |
| **Unrecognised Amounts** | | | |
| Interim Dividend | - | - | - |

| | **Six months ended 30 September 2020** | | |
|---|---|---|---|
| | **Cents per share** | **Total $'000s** | **Date paid / payable** |
| **Recognised Amounts** | | | |
| Final Dividend | - | - | - |
| **Unrecognised Amounts** | | | |
| Interim Dividend | - | - | - |

### *Other reserves*

| $'000 AUD | 30 September 2021 | 31 March 2021 |
|---|---|---|
| Cash flow hedge reserve | (2,345) | (3,721) |
| Employee benefits reserve | 119 | 229 |
| Trust excess spread reserve | 5,351 | - |
| | **3,125** | **(3,492)** |

During the period, Thorn reached an agreement with its funders to allow Thorn to vary contracts with certain COVID-19 affected customers. As a result of the amendments made to the funding arrangements, an "excess spread ledger" was established. Any excess spread which would usually be distributed to Thorn on a monthly basis is instead held within a cash reserve and serves as collateral against the collection of the receivables. Once the external note holders are repaid in full, these amounts will be available for distribution to Thorn.

## 12. SUBSEQUENT EVENTS

The Consumer Leasing (trading as Radio Rentals) division leases household products to the consumer market with contracts ranging from 1-60 months.

On 30 November 2021, Thorn entered into a binding asset sale deed with Credit Corp Group Limited (CCG) under which Thorn will sell, assign or novate, and the Purchaser acquire, Radio Rentals and the property, rights and assets of the Radio Rentals business. The transaction is currently expected to close in mid-December but could close later. Estimated sales proceeds of approximately $45million are expected.

A number of elements of the transaction are yet to be finalised, primarily relating to employees. As a result, at the date of signing, Thorn is currently unable to provide an estimated profit on sale.

In addition, as a result of the uncertainties noted above, it is not currently possible to provide the full estimated impact on the condensed consolidated financial statements for the six months ended 30 September 2021.

## 13. CONTINGENT LIABILITY

Thorn is undergoing legal proceedings in relation to a disputed property lease (Thorn Australia Pty Ltd ats Centuria Property Funds Ltd). Thorn sought a declaration from the Supreme Court to the effect that it had not entered into a binding lease in respect of commercial premises in Eveleigh. The matter was heard on 13 September 2021 and judgement was delivered in Thorn's favour on 27 September 2021. Thorn was served with a Notice of Appeal on 21 October 2021. The matter is being defended, and no provision has been taken. Legal fees are and will continue to be incurred defending the matter. A bank guarantee has been provided to Centuria for a value of $1.1m. Thorn has provided cash collateral for this guarantee to its bank. The collateral is recognised in prepayments and other assets.

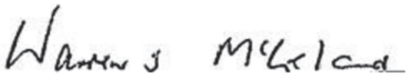
Directors' Declaration

In the opinion of the directors of Thorn Group Limited:

1. the financial statements and notes set out on pages 13 to 20 are in accordance with the Corporations Act 2001, including:
   (a) giving a true and fair view of the Group's financial position as at 30 September 2021 and of its performance for the six month period ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by section 295 of the Corporations Act 2001.

Dated at Sydney, 30 November 2021.

Signed in accordance with a resolution of the directors.



**Warren McLeland**
*Chairman*

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhnsyd.com.au
www.uhyhnsydney.com.au

**INDEPENDENT AUDITOR'S REVIEW REPORT**

**To the Members of Thorn Group Limited**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Thorn Group Limited ("the Company"), and the entities it controlled during the half-year (together "the Group"), which comprises the Condensed Consolidated Statement of Financial Position as at 30 September 2021, the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity and the Condensed Consolidated Statement of Cash Flow for the half-year ended on that date, selected other explanatory notes, and the directors' declaration.

**Conclusion**

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

a) giving a true and fair view of Group's financial position as at 30 September 2021 and of its performance for the half-year ended on that date; and

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

**Directors' Responsibility for the Half-Year Financial Report**

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

**Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2021 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

| | |
|---|---|
| **Mark Nicholaeff** | **UHY Haines Norton** |
| Partner | Chartered Accountants |

Sydney

Date: 30 November 2021