Thorn Group Limited

ABN 54 072 507 147

APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

HALF YEAR ENDED 30 SEPTEMBER 2019

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

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Six months ended	30 Sep 2019 $'000s	30 Sep 2018* $'000s	% Change
Revenue from ordinary activities – Continuing operations	104,919	111,427	Down 5.8%
Profit / (loss) from continuing operations, net of tax	(25,578)	1,119	nm
Profit from discontinued operations, net of tax	-	1,335	nm
Reported statutory profit / (loss) after tax	(25,578)	2,454	nm

* Restated to adjust certain line items to enable comparison with 31 March 2019 disclosures
Nm = not meaningful

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 2019. This information should be read in conjunction with the 2019 Annual Financial Report of Thorn Group Limited.

DIVIDENDS	Amount per ordinary share	Franked amount per ordinary share
2019 final dividend	Nil	Nil
2020 interim dividend (resolved, not yet provided at 30 September 2019)	Nil	Nil

NET TANGIBLE ASSETS	30 Sept 2019	30 Sept 2018
Net tangible assets per ordinary share	66 cents	118 cents

1. The company undertook a 1 for 1 rights issue in the September and October 2019 period which has affected the 2019 figure. The institutional component of the offer was completed by the period end resulting in an additional 64 million shares being issued. If the retail component had concluded prior to the period end there would have been additional net cash of $20.4m and 96.8 million additional shares and the NTA per share would then have been $0.52

Condensed Consolidated Financial Statements

for the six months ended 30 September 2019

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 2019 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 (appointed 30 August 2019 and Chairman from 23 October 2019)
David Foster (Chairman until his retirement on 23 October 2019)
Belinda Gibson
Andrew Stevens
Allan Sullivan (appointed 30 August 2019)
Kent Bird (appointed 30 August 2019)
Paul Oneile (appointed 14 October 2019)
Stephen Kulmar (retired 30 August 2019)

Executive

Tim Luce (Managing Director and CEO)

OPERATING AND FINANCIAL REVIEW

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

Thorn undertook three significant matters in the half year: signing a deed of settlement for the class action, a strategic review, and a rights issue. All three matters have had a significant impact on the financial statements and are explained further in this report. The Group also adopted the new accounting standard AASB 16.

Financial performance

Revenue from continuing operations fell 5.8% on the previous corresponding period ("pcp") from $111.4m to $104.9m and the net profit after tax ("NPAT") fell from a $2.4m profit to a $(25.6)m loss.

The loss for this half year included the significant items of the class action settlement and the costs of the strategic review. If these were excluded, the NPAT for the half year would have been a profit of $2.0m. The result also includes an implementation benefit from the adoption of AASB 16 which is further explained below and in the notes to the accounts.

$m	Segment revenue		Segment EBIT to NPAT	
Half year ended 30 September	**2019**	**2018**	**2019**	**2018**
Consumer Leasing	84.4	89.9	6.9	3.5
Business Finance	20.5	21.5	9.0	13.5
Corporate			(4.7)	(7.1)
Significant items – class action & strategic review			(28.7)	(0.9)
Sub-total	**104.9**	**111.4**	**(17.5)**	**9.0**
Net interest expense			(8.2)	(7.4)
(Loss) / Profit before tax			**(25.7)**	**1.6**
Tax expense			0.1	(0.5)
(Loss) / Profit after tax from continuing operations			**(25.6)**	**1.1**
Profit from discontinued businesses after tax			-	1.3
Net (loss) / profit after tax			**(25.6)**	**2.4**

The Group adopted new accounting standard AASB 16 during the period which resulted in the creation of an intangible 'right of use' asset and a lease liability for future lease payments. As was flagged in the 31 March 2019 financial report that 'right of use' asset has to be tested for impairment. The majority of the 'right of use' asset related to the Consumer Leasing Cash Generating Unit ("CGU"). That CGU was considered impaired in the 31 March 2019 financial statements and several of its assets were written down at that time. A further reassessment was performed at the period end and that CGU continues to be impaired. Consequently the 'right of use' asset has been written off through retained earnings as part of the transition provisions of the standard.

Consumer Leasing (Radio Rentals)

The business recorded gradually stabilising installation volumes for the half year of 39,813 units compared to 40,690 in the half year to March 2019 and 42,609 units in the corresponding half year to September 2018. The average selling price rose 5.6% over the pcp to $1,063 per installation. The increase in average selling price helped to offset the reduction in volumes which resulted in sales revenue being flat between periods. The receivables book which was $147.4m at September 2018 and $136.4m at March 2019, reduced further to $131.3m at the half year end. This led to $5.5m of lower interest and fees on the smaller book.

Lower sales and a cost reduction program reduced costs by $6.0m including the closure of 8 stores and redundancies. The adoption of AASB 16 and the ensuing write down of the 'right of use' asset produced a $2.8m accounting benefit on the period. Arrears, which had risen in the past year, were brought back down to 10.2% at period end which is close to the long term average and an improvement on the 12.1% recorded on 30 Sept 2018.

EBIT rose from $3.5m to $6.9m.

Business Finance

The TBF division continued to face capital constraints in the half year and accordingly its origination profile was relatively flat. It originated $78.6m in the half year compared to $70.0m in the half year to March 2019 and $84.6m in the pcp (there is an element of seasonality in that December and January are slower sales months).

The capital constraints have since been resolved, with the capital raising and with expanded parameters for the debt warehouse, so the division can look forward to gradually growing its book. With flat originations, the receivables book was also flat at around $317.9m (net of the bad debt provision and presented under AASB 9) from $318.3m on 31 March 2019 and down from the $333.2m on 30 September 2018.

Revenue follows book size so revenue reduced by $1.0m to $20.5m (pcp: $21.5m). While general costs of doing business were kept flat there was an increase in arrears over 30 days to 5.9% at period end (pcp: 3.9%) which drove a $2.6m higher bad debt impairment expense to $6.4m (pcp: $3.9m) and higher recovery costs such that an EBIT of $9.0m was recorded (pcp: $13.5m).

Corporate

Corporate expenses have been separated into the normal ongoing corporate expenses and then the significant items. The normal corporate expense of $4.7m was lower than the same period last year (pcp: $7.1m) due to cost reductions although these were somewhat offset by higher insurance costs as the market for directors and officers insurance and professional indemnity insurance has hardened substantially and continues to be difficult.

Significant items

The class action which was previously classified as a contingent liability has been treated in this set of accounts as a provision of $25.0m. That charge together with the associated legal costs of $2.9m incurred in the half year has been treated as a significant item. It should be noted this matter still requires Court approval before being finally settled.

The strategic review has concluded with the launch of the capital raising and the restructure of Radio Rentals and the Corporate centre. The costs incurred through external advisors conducting the strategic review have been treated as a significant item in these accounts. They amounted to $0.8m in this half year.

Interest expense

Net borrowing costs increased by 12% to $8.2m (pcp: $7.4m) as the average volume of borrowing increased, the interest rate increased as the company has paid interest on mezzanine debt tranches since August 2018, and there were some higher amortisation charges for capitalised borrowing costs for the setting up of the warehouse mezzanine facility. Interest expense now also includes an amount for the AASB 16 lease liability accounting.

Earnings per share and dividend

Earnings per share for the continuing operations for the period was a loss of (15.6) cents compared to a profit of 0.6 cents for the prior corresponding period. Total earnings per share was a loss of (15.6) cents (pcp: profit of 1.5 cents).

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

Financial position

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

Summarised financial position	**30 September 2019**		**31 March 2019**		**30 September 2018**	
$m	**excl. Trust**	**incl. Trust**	**excl. Trust**	**incl. Trust**	**excl. Trust**	**incl. Trust**
Cash at bank (free and tied)	45.6	45.6	30.6	30.6	25.8	25.8
Receivables	129.3	451.0	144.8	457.4	171.9	483.7
Investment in unrated notes	23.9	-	24.0	-	24.3	-
Inventory, prepayments and other assets	36.7	36.7	24.8	24.8	26.8	26.8
Intangible assets	-	-	-	-	5.9	5.9
Total Assets	**235.5**	**533.3**	**224.2**	**512.8**	**254.7**	**542.2**
Borrowings	12.0	309.8	15.0	303.6	15.0	302.5
Other liabilities	75.0	75.0	37.2	37.2	44.7	44.7
Total Liabilities	**87.0**	**384.8**	**52.2**	**340.8**	**59.7**	**347.2**
Total Equity	**148.5**	**148.5**	**172.0**	**172.0**	**195.0**	**195.0**
Gearing (net debt/equity) (i)	nm	193%	4.1%	171.9%	5.9%	154.4%
Return on Equity (ii)		(16.0%)		(11.3%)		1.2%

(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 average of opening and closing equity.

Cash at bank

The cash amount includes the free cash available to the Group for its usual working capital balance plus the tied cash held within the securitised warehouse special purpose vehicle. At 30 September 2019, free cash was $23.7m and tied cash $21.9m. The free cash included the cash received under the institutional component of the capital raising and less the first deposit for the class action settlement.

Receivables

The receivables books have held steady through the past half year in the $450m range with provisioning stable as a % of the book: 4.9% for Business Finance and 15.2% for Consumer Leasing compared to 4.9% and 16.3% respectively at 31 March 2019.

Unrated notes

This balance represents the junior notes held by the Group in the securitised warehouse.

Inventory, prepayments and other assets

This section includes the Consumer Leasing rental asset inventory in the stores and warehouses and out on short term operating leases with customers, prepayments of items such as insurance and rent, deferred borrowing costs and deferred tax balances. It has increased this half year due to the recording of the $8.3m deposit paid towards the class action settlement.

Borrowings

Borrowings increased $6.1m to $309.8m (31 March 2019: $303.6m). This balance comprises the securitised warehouse facility whose drawn balance increased by $11.2m from 31 March 2019 to $297.8m and the corporate loan facility which was reduced by $3.0m from 31 March 2019 to $12.0m at the half year end.

Other liabilities

This balance has increased by $37.8m since 31 March 2019 due to the taking of a $25m provision for the class action settlement amount, the addition of a "right of use" liability of $14.2m under AASB 16 at period end and a $2.3m increase in the liability recorded for the interest rate swap as the cash rate has continued to decline.

Funding

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

$m	30 September 2019	31 March 2019
Secured Corporate Loan Facilities A and B	20.0	30.0
Securitised Warehouse Facility	368.0	368.0
Total loan facilities	**388.0**	**398.0**

The corporate loan facility A drawn balance was $12.0m at 30 September 2019 with an available facility limit of $15.0m. This limit was reduced subsequent to the half year end to $12.0m and so was fully drawn at that point. The Group also has access to a $5.0m corporate loan facility B which is taken up by $2.5m isolated for bank guarantees (drawn to $1.9m) and an overdraft facility of $2.5m which remains undrawn. The corporate facilities have a termination date of 30 November 2020 and a covenant holiday until the next review date of 10 February 2020. The loan is disclosed as a current liability in the balance sheet.

The securitised warehouse facility was drawn to $297.8m at the half year. This leaves $70.2m as undrawn capacity and can be accessed providing the lease and loan receivables to be sold into the warehouse meet the warehouse eligibility criteria and all other terms and conditions of that facility remain met. The facility has a maturity date of 10 February 2026 and a presently availability period, in which to sell lease and loan receivables into, until the next review date of 10 February 2020. The amounts due and payable on the warehouse loan facility in the next 12 months are disclosed as current.

RISKS

The major risks faced by the Group include the following.

Credit and payment risk as the majority of its assets (around 83%) 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.

The risk of 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, crime, and professional indemnity cover.

Liquidity and refinancing risks as the Group has in the past and may continue to face pressure on 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 roll out of the new online origination and credit assessment platform and related processes, and the implementation of new technology in the credit and operational process.

The Group is subject to interest rate risk in that it borrows short to lend long. To mitigate this risk, the Group hedges all of its interest rate risk in the securitised warehouse facility (but not the smaller corporate facility with its more variable balance).

REGULATORY MATTERS

Thorn's consumer leasing division is continuing to operate under the ASIC Enforceable Undertaking ("EU") imposed upon it and has complied with the requirements placed upon it, evidenced by independent expert's reports. The EU is expected to formally conclude shortly.

SUBSEQUENT EVENTS

The Company conducted a rights issue which spanned the half year end. The institutional offer concluded before the half year end but the retail offer concluded subsequent to the half year end and that retail offer issued 96.8m shares for net consideration of $20.4m.

Subsequent to the half year end the Group paid $16.7m as the second instalment for the class action settlement deposit using the funds raised from the retail component of the rights issue.

Paul Oneile was appointed as a director on 14 October 2019. David Foster retired as chairman and director on 23 October 2019 and Warren McLeland was elected as chairman on 23 October 2019.

Peter Lirantzis was announced as Thorn's new CEO on 28 October 2019 and will join the Company on 10 February 2020 or earlier by agreement.

OUTLOOK

The Company has a newly constituted board, has signed a new CEO, has a more sustainable capital position after the rights issue, and can look forward to a new future.

Consumer Leasing is being refreshed and restructured although trading conditions remain tight and consumers continue to be under pressure on their disposable income.

Business Finance is less constrained by capital availability and anticipates modest book growth while concentrating on credit quality and arrears.

The Company's directors anticipate a return to profitability with a small net profit after tax at the trading level, i.e. before the significant items, for the full year.

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

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

Dated at Sydney, 20 November 2019.

Signed in accordance with a resolution of the directors.

Warren J McLeland

Warren McLeland

Chairman

pwc

Auditor's Independence Declaration

As lead auditor for the review of Thorn Group Limited for the half-year ended 30 September 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

M. Laithwaite

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
20 November 2019

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 September 2019

$'000 AUD	Notes	30 September 2019	30 September 2018*
Continuing operations			
Sales revenue		39,611	39,587
Interest revenue		60,524	64,890
Other income		4,785	6,950
Revenue		**104,919**	**111,427**
Finance lease cost of sales		(29,165)	(33,589)
Employee benefit expense		(25,891)	(28,509)
Impairment losses on loans and receivables		(17,302)	(13,253)
Marketing expenses		(4,359)	(5,165)
Property expenses		(2,834)	(5,354)
Transport expenses		(1,616)	(2,850)
Communication & IT expenses		(3,102)	(3,200)
Printing, stationary and postage		(804)	(1,103)
Travel expenses		(446)	(510)
Legal expenses		(728)	(423)
Other expenses		(6,581)	(5,941)
Depreciation & amortisation		(20)	(1,584)
Impairment of intangibles & property, plant and equipment		(808)	-
Class action settlement and related expenses		(27,927)	(911)
Strategic review costs		(789)	-
Total operating expenses		**(122,371)**	**(102,391)**
Earnings before interest and tax ("EBIT")		**(17,451)**	**9,035**
Finance expenses		(8,238)	(7,415)
Profit/(Loss) before income tax		**(25,689)**	**1,621**
Income tax		111	(501)
Profit/(Loss) after tax from continuing operations		**(25,578)**	**1,119**
Discontinued operations			
Profit from discontinued operations, net of tax	12	-	1,335
Profit/(Loss) after tax		**(25,578)**	**2,454**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Cash flow hedge reserve movements		(2,295)	(789)
Income tax		688	236
Other comprehensive income for the year		**(1,607)**	**(553)**
Total comprehensive income/(loss)		**(27,185)**	**1,901**
Earnings per share for continuing operations only			
Basic earnings per share (cents)		(15.6)	0.6
Diluted earnings per share (cents)		(15.6)	0.5
Earnings per share			
Basic earnings per share (cents)		(15.6)	1.5
Diluted earnings per share (cents)		(15.6)	1.4

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

** Restated to adjust certain line items to enable comparison the current period. For further details see note 3 (b).*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2019

$'000 AUD	Note	30 September 2019	31 March 2019
Assets			
Cash and cash equivalents		45,624	30,627
Trade and other receivables	7	168,303	167,847
Prepayments and other assets		12,420	4,352
Inventories		9,184	13,638
Income tax receivable		2,874	1,293
Right of use asset	3	-	-
Total current assets		**238,405**	**217,757**
Trade and other receivables	7	282,699	289,547
Deferred tax assets		12,172	5,541
Right of use asset	3	-	-
Property plant and equipment		14	-
Total non-current assets		**294,885**	**295,088**
Total assets		**533,290**	**512,845**
Liabilities			
Trade payables		10,706	10,764
Lease liability	3	6,849	-
Other payables		10,432	13,974
Loans and borrowings	9	119,538	122,490
Employee benefits		4,770	4,777
Provisions		28,274	2,767
Total current liabilities		**180,569**	**154,772**
Loans and borrowings	9	190,227	181,154
Lease liability	3	7,394	-
Employee benefits		467	518
Derivative financial instruments	10	5,621	3,326
Provisions		515	1,035
Total non-current liabilities		**204,224**	**186,033**
Total liabilities		**384,793**	**340,805**
Net assets		**148,497**	**172,040**
Equity			
Issued capital	11	135,569	120,932
Reserves		(2,768)	(1,424)
Retained earnings		15,696	52,532
Total equity		**148,497**	**172,040**

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 2019

$'000 AUD	Share capital	Reserves	Retained earnings	Total Equity*
Balance at 1 April 2018	119,951	181	82,746	202,878
Adjustment on initial application of AASB 9 (net of tax)	-	-	(12,072)	(12,072)
Restated total equity at 1 April 2018	119,951	181	70,674	190,806
Total comprehensive income				
Net profit for the period	-	-	2,454	2,454
Other comprehensive income	-	(553)	-	(553)
Total comprehensive income	**-**	**(553)**	**2,455**	**1,901**
Transactions with owners of the company				
Share based payments transactions	-	866	-	866
Dividends to shareholders	-	-	-	-
Total transactions with owners of the company	**-**	**866**	**-**	**866**
Balance at 30 September 2018	**119,951**	**494**	**73,128**	**193,573**

$'000 AUD	**Note**	**Share capital**	**Reserves**	**Retained earnings**	**Total Equity**
Balance at 1 April 2019		120,932	(1,424)	52,532	172,040
Adjustment on initial application of AASB 16 (net of	3(a)	-	-	(11,258)	(11,258)
Restated total equity at 1 April 2019		120,932	(1,424)	41,274	160,782
Total comprehensive income					
Net profit for the period		-	-	(25,578)	(25,578)
Other comprehensive income		-	(1,607)	-	(1,607)
Total comprehensive income		**-**	**(1,607)**	**(25,578)**	**(27,185)**
Transactions with owners of the company					
Issue of shares under capital raising		14,637	-	-	14,637
Share based payments transactions		-	263	-	263
Total transactions with owners of the company		**14,637**	**263**	**-**	**14,900**
Balance at 30 September 2019		**135,569**	**(2,768)**	**15,696**	**148,497**

** Restated to adjust certain line items to enable comparison with 31 March 2019 disclosures. For further details see note 3 (b).*

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 2019

$'000 AUD	30 September 2019	30 September 2018
Cash flows from operating activities		
Cash receipts from customers	183,366	184,636
Cash paid to suppliers and employees	(71,191)	(75,717)
Acquisition of inventory	(28,446)	(29,023)
Equipment finance originations	(78,214)	(86,611)
Cash generated from operations	**5,515**	**(6,715)**
Net borrowing costs	(8,233)	(7,312)
Income tax paid	(2,243)	(4,505)
Net cash from operating activities	**(4,961)**	**(18,532)**
Cash flows from investing activities		
Acquisition of property, plant and equipment and software	(453)	(2,149)
Net cash used in investing activities	**(453)**	**(2,149)**
Cash flows from financing activities		
Proceeds from borrowings	84,115	108,903
Repayment of borrowings	(77,994)	(90,688)
Proceeds from issues of shares	14,291	-
Net dividends paid	-	-
Net cash from financing activities	**20,412**	**18,215**
Net increase in cash and cash equivalents	14,997	(2,466)
Cash and cash equivalents at 1 April	30,627	28,227
Cash and cash equivalents at 30 September	**45,624**	**25,761**

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 2019 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 2019 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 2019.

These condensed consolidated interim financial statements were approved by the Board of Directors on [21 November 2019.]

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(a) NEW ACCOUNTING STANDARDS ADOPTED

The Group has had to change its accounting policies and make retrospective adjustments in the Group's financial statements as a result of adopting AASB 16 *Leases.*

AASB 16 Leases

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.

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.

The Group's leasing activities 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
- 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	19,684
Less: discount using the lessee's incremental borrowing rate of 4.8% at the date of initial application	(1,231)
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	832
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	624
Lease liability recognised as at 1 April 2019	**17,177**

Of the $17.1m balance, $6.5m was classified as current at 1 April 2019 and $10.7m as non-current.

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	11,110	(11,110)	-
Vehicles	4,924	(4,924)	-
Printers	117	(117)	-
	16,151	**(16,151)**	**-**

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

a) Right of use assets – increased by $16.2m
b) Trade payables – decreased by $1.1m
c) Lease liabilities - increased by $17.2m

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% (2018: 9.5% post-tax).

As a result, the right of use asset created on the adoption of AASB 16 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

a) Right of use assets – decreased by $16.2m
b) Deferred tax – increased by $4.9m
c) Retained earnings – decreased by $11.3m

Impact on segment disclosures and earnings per share

Adjusted EBITDA, EBIT, and segment liabilities for the six months to and ended on 30 September 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy:

30 September 2019 $'000 AUD	Adjusted EBITDA and EBIT	Segment Assets	Segment Liabilities
Consumer Leasing	2,866	-	(14,243)
Business Finance	-	-	-
Corporate	-	-	-
	2,866	**-**	**(14,243)**

Earnings per share for the six months to 30 September 2019 was impacted as a result of the adoption of AASB 16. If AASB 16 had not been adopted earnings per share would have been (16.9) cents per share.

Practical expedients applied

In applying AASB16 for the first time, 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.*

3(b) RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION

During the prior period, the classification of transactions were re-reviewed and certain reclassifications were made to financial statement line items to enhance presentation. The comparative information in the statement of profit or loss and other comprehensive income, statement of changes in equity and segment note have been reclassified consistent with the presentation adopted in the 30 September 2019 financial statements.

- Stock on hand had been accounted for as rental assets. This classification has now been adjusted to inventory which resulted an increase in cost of sales of $1,788,000 and a decrease in depreciation of $2,470,000.

- Radio Rentals had accounted for rent free incentive periods by capitalising these amounts and amortising against other comprehensive revenue in the statement of comprehensive income. It is now being expensed upfront against sales revenue. Other comprehensive revenue has been adjusted by eliminating amortisation of $3,311,000 and including a reduction in sales revenue of $3,981,000.

- Promotional customer gift cards had been capitalised and amortised as an offset to other revenue over the average lease duration. This has now been adjusted as an immediate write off to finance lease cost of sales that resulted in an additional $2,796,000 expense and increase in sales revenue of $747,000.

- Establishment fees had previously been included in other revenue up front rather than amortised over the period of the lease. Other comprehensive income has been reduced by $6,000. This has also impacted Note 6 operating segments.
- Where Radio Rentals had replaced or repaired an item on rent that was damaged due to fault of the customer, the replacement good value or repaired costs was charged over a lease term agreed with the customer in addition to the original amounts owing. This had been recognised on a cash basis with no receivable taken up. Other revenue has been increased by $74,000. This has also impacted Note 2 operating segments.
- Radio Rentals at times will forgive customer arrears in order to retain their custom. This had been included as a reduction to other revenue. This has now been expensed to impairment losses on loans and receivables. Other revenue and impairment expenses have both increased by $409,000.
- Radio Rental had accounted for supplier rebates as other revenue. This has been adjusted to reduce other revenue by $637,000 and finance lease cost of goods sold decreased by $637,000.
- Early termination fees charged on disconnection of leases prior to the expiry of the contracted lease term were accounted for as a charge against revenue. An amount of $180,000 has been transferred as a recovery to impairment expense.
- Interest earned on the warehouse facility of $103,000 has been transferred to revenue from finance expenses.

Statement of Profit and Loss and Other Comprehensive Income (extract)	30 September 2018 $'000 AUD	Increase/(Decrease) $'000 AUD	30 September 2018 Restated $'000 AUD
Revenue	111,587	(160)	111,427
Finance lease cost of sales	(29,642)	(3,947)	(33,589)
Impairment losses	(13,024)	(229)	(13,253)
Depreciation and amortisation	(4,054)	2,470	(1,584)
Total operating expenses	**(100,686)**	**(1,705)**	**(102,391)**
Finance expenses	(7,312)	(103)	(7,415)
Profit before income tax	**3,589**	**(1,968)**	**1,621**
Income tax	(1,092)	591	(501)
Profit after tax from continuing operations	**2,497**	**(1,378)**	**1,119**

4. ESTIMATES

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 March 2019.

5. FINANCIAL INSTRUMENTS

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

6. SEGMENT REPORTING

The Board and CEO (the chief operating decision maker) monitor the operating results of three reportable segments which are the Consumer Leasing division which leases household equipment and products, the Business Finance division which provides leasing and other financial services to small and medium enterprises including equipment leasing, and the corporate division which holds corporate expenses for Thorn Group Limited. Segment performance is evaluated based on operating profit or loss. Income tax expenses are not fully allocated to operating segments as this type of activity is managed on a group basis.

30 September 2019 $'000 AUD	Consumer Leasing	Business Finance	Corporate	Discontinued operations	Consolidated
Sales revenue	39,611	-	-	-	39,611
Interest revenue	40,091	20,433	-	-	60,524
Other	4,717	67	-	-	4,785
Total segment revenue	**84,419**	**20,500**	**-**	**-**	**104,919**
Operating expenses	(76,859)	(11,505)	(33,178)		(121,542)
EBITDA	**7,560**	**8,995**	**(33,178)**	**-**	**(16,623)**
Depreciation and amortisation	-	(20)	-	-	(20)
Impairment	(630)	-	(178)	-	(808)
EBIT	**6,930**	**8,975**	**(33,356)**	**-**	**(17,451)**
Finance expense	(907)	(7,331)	-	-	(8,238)
Profit/(loss) before tax	**6,023**	**1,644**	**(33,356)**	**-**	**(25,689)**
Segment assets	163,466	331,098	38,726	-	533,290
Segment liabilities	(87,028)	(297,765)	-	-	(384,793)

30 September 2018 * $'000 AUD	Consumer Leasing	Business Finance	Corporate	Discontinued operations	Consolidated
Sales revenue	39,587	-	-	-	39,587
Interest revenue	43,599	21,291	-	-	64,890
Other	6,703	247	-	-	6,950
Segment revenue	**89,889**	**21,538**	**-**	**-**	**111,427**
Operating expenses	(85,875)	(7,946)	(6,987)	559	(100,249)
EBITDA	**4,014**	**13,592**	**(6,987)**	**559**	**11,178**
Depreciation and amortisation	(511)	(46)	(1,027)	-	(1,584)
EBIT	**3,504**	**13,546**	**(8,014)**	**559**	**9,594**
Finance expense	(718)	(6,697)	-	-	(7,415)
Profit before tax	**2,786**	**6,849**	**(8,014)**	**559**	**2,180**
Segment assets	189,167	333,188	18,401	-	540,755
Segment liabilities	(59,621)	(287,561)	-	-	(347,182)

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

Reconciliations of reportable segment to IFRS measures

$'000 AUD	30 September 2019	30 September 2018
Revenue		
Total revenue for reportable segments	104,919	111,427
Elimination of discontinued operations	-	-
Consolidated Revenue	**104,919**	**111,427**
Profit before tax		
Total profit / (loss) before tax for reportable segments	(25,689)	2,180
Elimination of discontinued operations	-	(559)
Consolidated profit / (loss) before tax from continuing operations	**(25,689)**	**1,621**

7. TRADE AND OTHER RECEIVABLES

$'000 AUD	**30 September 2019**	**31 March 2019**
Current		
Trade receivables	13,448	11,711
Finance lease receivables	127,103	128,128
Loan receivables	27,752	28,008
	168,303	**167,847**
Non-current		
Finance lease receivables	235,956	238,855
Loan receivables	46,743	50,692
	282,699	**289,547**
Total trade and other receivables	**451,002**	**457,394**

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 19**	**Impairment Provision**	**Gross March 2019**	**Impairment Provision**
Stage 1	142,121	(14,725)	144,947	(14,040)
Stage 2	10,043	(5,742)	13,210	(7,612)
Stage 3	3,236	(3,236)	5,228	(5,228)
TOTAL	**155,400**	**(23,703)**	**163,385**	**(26,880)**

Business Finance lease receivables

$'000 AUD	Gross September 2019	Impairment	Gross March 2019	Impairment
Stage 1	242,991	(5,915)	240,638	(5,353)
Stage 2	3,535	(1,040)	3,344	(1,190)
Stage 3	22,185	(17,097)	20,362	(16,261)
TOTAL	**268,710**	**(24,052)**	**264,344**	**(22,804)**

Loan receivables (Business Finance and remaining consumer solar loans)

$'000 AUD	Gross September 2019	Impairment	Gross March 2019	Impairment
Stage 1	74,601	(1,943)	79,334	(2,066)
Stage 2	1,726	(599)	998	(329)
Stage 3	2,171	(1,307)	3,108	(1,697)
TOTAL	**78,498**	**(3,850)**	**83,440**	**(4,092)**

8. 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	-	20,658	16,914	37,572
Amortisation and Impairment	-	(20,658)	(16,914)	(37,572)
Net book amount	**-**	**-**	**-**	**-**
Six months ended 30 September 2019				
Opening net carrying amount	-	-	-	-
Initial application of AASB 16 – creation of asset	16,151	-	-	16,151
Initial application of AASB 16 – impairment of asset	(16,151)	-	-	(16,151)
Additions	363	-	172	535
Amortisation charges for the period	-	-	-	-
Impairment charges for the period	(363)	-	(172)	(535)
Closing net book amount	**-**	**-**	**-**	**-**
At 30 September 2019				
Cost	16,514	20,658	17,086	54,258
Amortisation and impairment	(16,514)	(20,658)	(17,086)	(54,258)
Net book amount	**-**	**-**	**-**	**-**

During the year ended 31 March 2019, software was assessed for impairment. As a result of this assessment, the software balance was fully written down. During the 6 months to 30 September 2019 capitalised software continued to be impaired and was fully written down as a result. See note 3 for further information on the adoption of AASB 16 and the impairment of the right of use asset at 1 April 2019.

9. LOANS AND BORROWINGS

$'000 AUD	30 September 2019	31 March 2019
Current liabilities		
Secured loans	119,538	122,490
Non- Current liabilities		
Secured loans	190,227	181,154
	309,765	**303,645**

Limits and drawings are set out below.

$'000 AUD	30 September 2019	31 March 2019
Corporate loan facility A limit	15,000	25,000
Utilised	(12,000)	(15,000)
Available headroom	**3,000**	**10,000**
Secured corporate loan facility B (maturity 30 November 2020)	5,000	5,000
Utilised	(1,854)	(2,146)
Available headroom	**3,146**	**2,854**
Securitised warehouse facility limit	368,000	368,000
Utilised	(297,765)	(288,644)
Available headroom	**70,235**	**79,356**
Total loan facility limits	388,000	398,000
Utilised	(311,619)	(305,790)
Loan facilities not utilised at reporting date	**76,381**	**92,210**

The corporate debt facility balance of $12.0m is presented as current in the statement of financial position.

Changes since 31 March 2019

During the period 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 its next review date of 10 February 2020. As part of this arrangement, the Group's $25.0m facility A was reduced to $15.0m at 30 September 2019 and subsequently reduced to $12.0m in early October following the Group's rights issue. The facility has a present maturity date of 30 November 2020.

The warehouse facility limit has an availability period to its next review date of 10 February 2020, and a final maturity date of 10 February 2026.

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 2019.

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

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

$’000 AUD	30 September 2019	31 March 2019
Interest rate swap liability	5,621	3,326

11. CAPITAL AND RESERVES

Number of shares	30 September 2019	31 March 2019
On issue at the beginning of the period	161,175,066	159,929,582
Issue of new shares on vesting of performance rights	-	1,245,484
Issue of shares under institutional component of the rights issue	64,342,142	-
	225,517,208	**161,175,066**

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 $2.9m.

In total 161,175,066 shares were issued with the Group receiving gross proceeds of $38.7m less $4.1m in associated costs.

Dividends

	Six months ended 30 September 2019		
	Cents per share	Total $’000s	Date paid / payable
Recognised Amounts			
Final Dividend	-	-	-
Unrecognised Amounts			
Interim Dividend	-	-	-

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

Other reserves

$'000 AUD	30 September 2019	31 March 2019
Cash flow hedge reserve	(3,935)	(2,328)
Employee benefits reserve	1,167	904
	(2,768)	**(1,424)**

12. DISCONTINUED OPERATIONS

The Consumer Finance division was sold on 1 November 2017 and the Thorn Trade and Debtor Finance division was sold on 26 February 2018. During the period to 30 September 2018, a sale transaction and a tax matter were finalised resulting in the release of the relevant provisions. Revenue and expenses of these divisions have been eliminated from the profit or loss of the Group's continuing operations and shown as a single line item on the face of the statement of profit or loss and other comprehensive income.

Result of discontinued operations

$'000 AUD	**30 September 2019**	**30 September 2018**
Revenue	-	-
Expenses	-	559
Results from operating activities	**-**	**559**
Income tax	-	776
Results from operating activities, net of tax	**-**	**1,335**

13. SUBSEQUENT EVENTS

The Company conducted a rights issue which spanned the half year end. The institutional offer concluded before the half year end but the retail offer concluded subsequent to the half year end and issued 96.8m shares for a net consideration of $20.4m less the costs of the issue.

Subsequent to the half year end the Group paid $16.7m as the second instalment for the class action settlement deposit using the funds raised from the retail component of the rights issue.

DIRECTOR'S DECLARATION

for the six months ended 30 September 2019

Directors' Declaration

In the opinion of the directors of Thorn Group Limited:

1. the financial statements and notes set out on pages 8 to 21 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 2019 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, 20 November 2019.

Signed in accordance with a resolution of the directors.

Warren McLeland
Chairman

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 2019, the Condensed Consolidated Statement of Profit or Loss and Other comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flow for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Thorn Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 30 September 2019 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Marcus Laithwaite
Partner

Sydney
20 November 2019