radio rentals

annual report 2007

Positioned for growth

RR Australia Limited ACN 072 507 147

Our **vision**

“To be Australia’s leading provider of financial sevices to the cash and credit constrained markets”

Contents

RR Australia Limited

ACN 072 507 147

Notice of meeting

Notice is hereby given that the Annual General Meeting will be held at Four Points by Sheraton, 161 Sussex Street, Sydney on Thursday 16 August 2007 at 11.00am

Established with the opening of a store in Sydney in 1937, Radio Rentals has a long history of renting electrical appliances to Australian consumers.

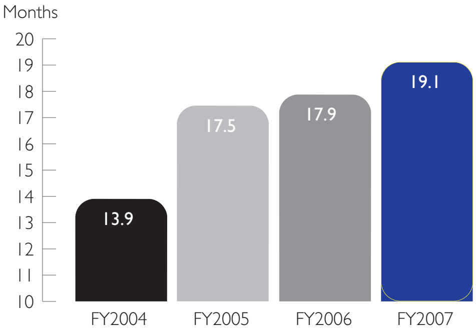
Today, the Company offers a wide range of audio visual products, kitchen and laundry appliances, computers, furniture and gym equipment through a national store network, making it a leading operator in the household goods rental market.

Financial **highlights**

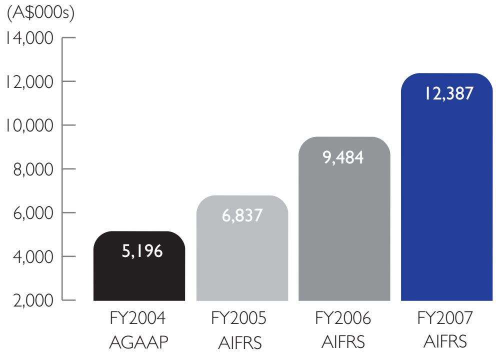
- Revenue up 15% on previous corresponding period to $101m
- Actual PAT of $6.5m – 6.4% ahead of Prospectus forecast
- Pro-forma PAT of $8.2m – 3.1% ahead of Prospectus forecast
- EPS of 5.1 cents – 6.2% ahead of Prospectus forecast
- Strong balance sheet with gearing of 1.87% (net debt to equity)
- Fully franked dividend of 0.97 cents per share – ahead of Prospectus 0.75 cents (in line with Prospectus pro-forma)

"Exceeding Prospectus and positioned for growth"

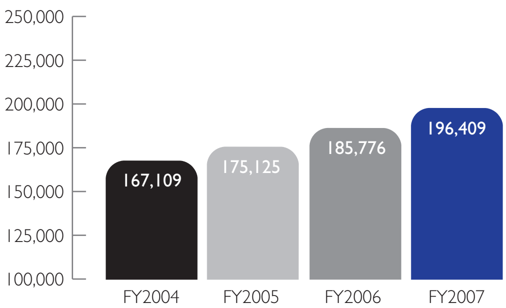
Average contract term



Pro-forma EBIT performance



Average units on rent



Corporate **highlights**

- IPO – 13th December 2006
- Appointment of Peter Henley and Paul Lahiff as new directors

Operational **highlights**

- Focus on "operational excellence" to achieve optimum performance standards in all areas
- "Project Simplify", which has delivered significant reductions in administrative processes
- Corporate office move to Bankstown
- Increased risk/credit management focus and resourcing
- More aggressive "call to action" marketing
- HR restructure with increased emphasis on recruitment, training & development

Chairman's **report**

On behalf of the Board of RR Australia Limited, I am pleased to present the Company's annual report for the year ended 31 March 2007.

Your Company was listed on the Australian Stock Exchange on 13 December 2006, and whilst it is now celebrating 70 years of operations, the listing heralds a new era for the business. RR Australia's listing on the ASX was extremely well received and has delivered sound returns for shareholders.

Profit

Results for the year ended 31 March 2007 were pleasing with net profit after tax of $6.5m exceeding the Prospectus forecast by 6.4%.

> …net profit after tax of $6.5m exceeding the Prospectus forecast by 6.4%.

Dividends

On 29 May, the Board declared a 0.97 cents dividend per share to be paid on 25 July 2007. This dividend covers the period from allotment date, 8 December 2006 to 31 March 2007, and is in line with Pro-forma Prospectus forecast.

Balance sheet

Further to the IPO in December 2006, and the consequent repayment of loans, the Group has a strong balance sheet at year end, as shown by the very conservative net debt to equity ratio of 1.87%.

This low gearing level provides significant capacity for development of new financial products or acquisitions.

Corporate Governance

The Board appreciates that fostering and upholding high standards of Corporate Governance is a critically important role. In view of this, the Board has adopted a number of policies which will ensure that the interests of shareholders are fully protected and that the Company meets its obligations to all stakeholders.

Pages 15 to 16 of this report set out details of the company policies and practices with regards to Corporate Governance issues. The remuneration policy of the Company for senior executives is set out in the Remuneration Report on pages 17 to 22.

Growth strategy

As outlined in the Prospectus, the Board will be assessing a number of growth opportunities. The provision of cash loans, primarily aimed at past and current customers is now in the planning stage.

Directors

As expected, following the profit announcement in May, Gordon Howlett, the previous Managing Director of the Company, and Laurence Cooklin, the CEO of Thorn Limited both retired from the Board and on behalf of my fellow directors I wish to my express thanks for their contribution to the Company over the past years.

We welcome to the Board Peter Henley, a former GE Money executive and Paul Lahiff, Managing Director of Mortgage Choice Limited, who bring with them a wealth of experience in the consumer finance industry.

Management, staff and shareholders

I would like to thank Managing Director, John Hughes and his staff for their efforts during the year in successfully completing the listing of the Company and delivering strong results for our shareholders.

I also thank shareholders for their support since listing and I look forward to continuing to work with the Board and all employees to create consistent growth and value for our shareholders.

Mr. Bernard Carrasco
Chairman and Non-Executive Director

Managing Director's **report**

Overview

The performance of the Company during the period was extremely pleasing, particularly given the amount of additional effort demanded by the IPO process.

I am also delighted that management and staff have taken a very positive approach to new initiatives that are focused on achieving 'operational excellence' in every area of the business.

The result has been underpinned by the strength of our customer base that continues to deliver high levels of recurring revenues. In addition to this were the major gains realised through the national roll-out of furniture at the start of the year and the growth of large screen plasma televisions and personal computers.

A more aggressive 'call to action' style of marketing and increased media expenditure also assisted in generating increased customer activity levels.

> …focused on achieving 'operational excellence' in every area of the business.

Outlook

As the Company develops into the future we will maintain the emphasis on generating operational efficiencies and achieving solid organic growth, especially through broadening our customer base. This is being assisted by a trend in the market showing a higher level of acceptance of rental as a means of acquiring products, particularly through our Rent, Try, Buy! proposition.

For the 07/08 year strong gains are anticipated to continue for plasma and LCD televisions along with PCs as a function of higher consumer demand.

Furniture is expected to maintain a solid performance, particularly as we increase consumer awareness along with whitegoods which is a mainstay of the business.

Commercial business will also be targeted during the coming year with tax deductibility being a key message.

Mr. John Hughes
Managing Director and CEO

Branch **network**

Key factors

- Over 70% of customer enquiries over the phone
- Efficiency gains in metropolitan areas
- Mobile showroom trial

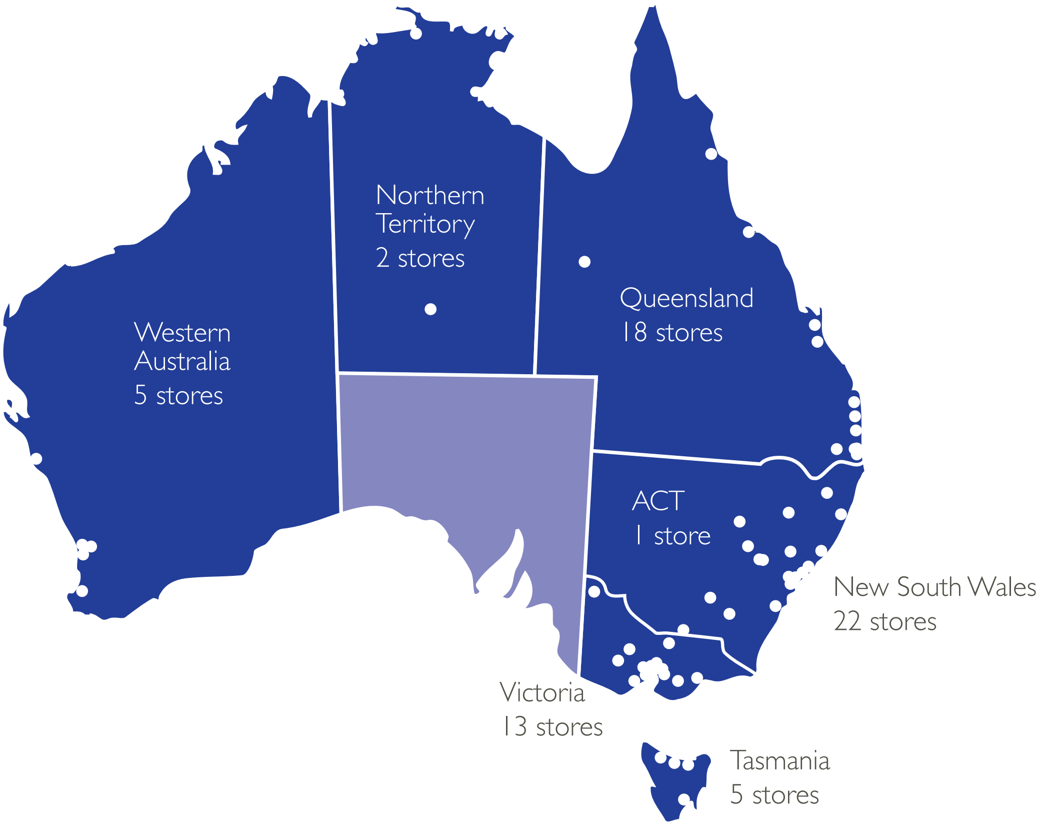
All stores are Company owned and operate under a Full Service Branch (FSB) model which incorporates a team of people who are responsible for all aspects of the customer relationship especially account approval and arrears management. No stores are located in South Australia.

In excess of 70% of customer enquiries are generated over the phone which means that stores do not have to be located in prime locations.

With the ever changing demographics of locations the Company is constantly reviewing the suitability of sites. An example of this being the Burwood store in Sydney, NSW which was merged with the Broadway operations in October '06 with no loss of customers and improved logistics and service efficiencies.

During the latter part of the year a 'mobile showroom' trial was conducted in Sydney to assess the potential of taking a casual lease in major shopping centres where a full time store operation could not be justified. The trial exceeded expectations and as such the program may be expanded to other capital cities.

Locations



Propositions

Key factors

- Continued steady movement to Rent, Try, Buy! (RTB) 36 month contracts in line with Plasma/LCD and PC growth
- Increased average length of rental contracts from 14 months (FY2004) to 19 months
- Over 40% of RTB contracts for new products remain in place with customers for 36 months

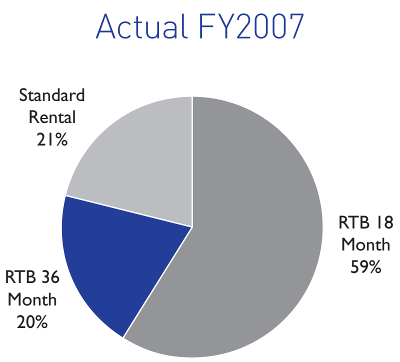
Products are supplied to customers under three different arrangements or "propositions".

Each of the propositions have varying levels of flexibility and ownership characteristics:

- Standard Rental – traditional rental agreement;
- Rent, Try, Buy! – either an 18 or 36 month rental contract, which includes an option to buy a similar product after 36 months for $1. Alternatively, the customer can make an offer to purchase the product being rented at the expiry of the rental term which the Company can either accept or reject; and
- Rent, Try, Buy! Plus – which is available on a selected range of products and is similar to the 18 month RTB, except the customer pays a premium for additional flexibility which includes the ability to return the product any time after 6 months without incurring an early termination fee and the customer can also recommence the rental at any time within the next 12 months.

Since its launch in early 2002, RTB has been a successful development for Radio Rentals which is illustrated in Figure 1, which shows that RTB represented 79% of Installation Rental Income in FY2007.

Figure 1: Installation Rental Income breakdown by proposition



Products

Key factors

- Major shift to new product segments continues
- Plasma/LCD televisions and PCs at some 26% of installation income
- Furniture and whitegoods growth remains steady
- Robust increases in gym equipment – attracting more affluent consumers
- Consumer demand is following anticipated growth patterns

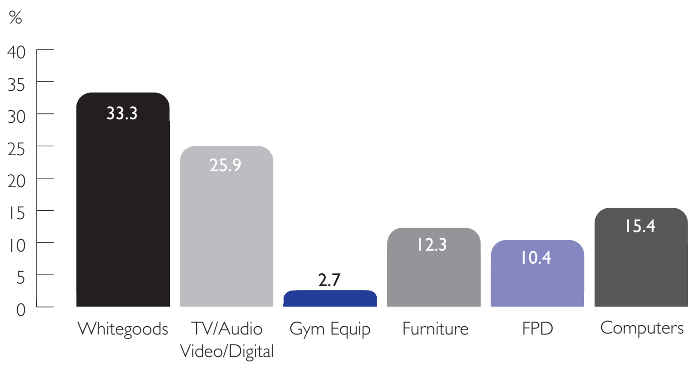
Radio Rentals offers a comprehensive range of products which can be classified into the following categories:

Category	Item	Supplier brands
Audio Visual	Televisions, DVD/VCR players, games consoles and home theatre systems	LG, NEC, Panasonic, Philips, Samsung, Sony and Toshiba
Computers	Desktop/laptop computers, display monitors and printers	ACER
Kitchen products	Fridges, microwaves and freezers	LG, Mitsubishi, NEC, Panasonic and Westinghouse
Laundry products	Washing machines, dryers and air conditioners	De Longhi, LG, NEC and Simpson
Furniture	Lounge, dining and bedroom	Clayton Furniture, Heartwood, KD Concepts, Sealy of Australia and Vita New Zealand
Gym equipment	Treadmills and bikes	FitZone Solutions

Figure 2: Installation rental income breakdown by product category.

In April 2006 furniture was launched across the store network and represented over 12% of FY2007 Installation Rental Income.

Actual FY2007



New products are typically introduced once they have proved to be reliable, have attained reasonable price stability and are more commonplace in the average household. From this perspective, the recent introduction of both Plasma and LCD televisions and laptop computers is expected to provide strong growth for the future.

Customers

Key factors

- Metropolitan markets
  - Decline arrested
  - Growth now following regional trend
- Regional markets
  - Continued growth
- New customers being attracted
  - Increased awareness
- Focus on broader market
  - Situational/short term
  - Commercial

Radio Rentals' customer base can be classified into the following four segments:

1. Cash constrained
2. Credit constrained
3. Situational
4. Commercial

Rental as a proposition often becomes increasingly attractive when there is an increase in the number of households that are experiencing financial difficulty, for example:

- The cash constrained segment will grow in times of low economic growth and/or high unemployment; and
- The credit constrained segment will potentially increase in an environment of high levels of household debt and increases in interest rates.

These characteristics provide a defensive aspect of Radio Rentals' business model in which earnings are not dependent on positive economic conditions for growth.

Customer statistics

	FY2004	FY2005	FY2006	FY2007
Average number of customers	82,968	81,220	79,976	77,536
Average revenue per customer per month	74.32	80.89	91.42	108.59
Average number of units per customer	2.01	2.16	2.32	2.53

A decline in customer numbers over the past few years has been due in part to the change from a higher turnover "churn" customer base on rent-to-rent contracts, to a more stable longer term RTB base. It was anticipated that this decline would level out and then generate increases as the new mix of business matured.

The decline in customer numbers has now been arrested, particularly in metropolitan areas, and there has been a pleasing level of growth in line with increasing activity levels and demand for Plasma/LCD televisions and PCs.

Further to this there is the intent to actively pursue additional opportunities in the situational/short term and commercial markets.

Risk management

Key factors

- Centralised Credit Acceptance
- Enhanced Scorecard/customer matching
- Compulsory automated payments
- Earlier action on delinquent accounts

Credit application process

The Company uses its own tailored 'Credit Scorecard' to assess potential customers. In addition, income and expenses are used to determine a rental limit or capacity.

In order to further streamline procedures a Centralised Credit Acceptance trial was conducted during the last quarter of 06/07 and the success of this has led to a national rollout.

Automated payments

Whilst the standard customer typically falls into the Sub-prime category, the potential risks to Radio Rentals of this customer segment are mitigated not only by the credit approval process, but also by automated payment.

Currently automated payments constitute over 60% of revenues.

Risk management performance review

The impact of the risk management strategies has led to improved average default rates and although the majority of the business involves dealing with low income households and Sub-prime borrowers, the average default rate for FY2007 was approximately 4.5%.

Lower default rates have also been the result of:

- Introduction of RTB, as customers are less likely to default if they aspire to eventual ownership;
- Fortnightly, rather than a monthly billing cycle; and
- Earlier action being taken on delinquent accounts.

Marketing

Key factors

- More aggressive advertising with strong "call to action"
- New catalogue design and TV commercials
  - "Join the rental revolution"
- Broader audience being targeted
  - 6.2 million catalogues
  - National TV
- Increased expenditure to $7m

With the appointment of a new marketing team the Company has taken a more aggressive approach, particularly in developing much stronger 'call to action' advertising campaigns. Customer response has been extremely positive and this coupled with a significant increase in media expenditure to $7m are aimed at ensuring that high enquiry levels continue.

As part of this new approach we are now broadening the marketing reach with some 6.2 million catalogues being distributed each month and then complimented by national TV coverage.

Annual financial report

31 March 2007

Directors' report

For the year ended 31 March 2007

Left to right: **Paul Lahiff, Peter Henley, Bernard Carrasco, John Hughes and David Carter.**

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, special responsibilities, qualifications and other directorships
Bernard Carrasco *Chairperson* *Independent* *Non-Executive Director*	Bernard Carrasco is a business consultant advising privately owned businesses and is Chairman of ASX listed Tutt Bryant Group Limited. Bernard's previous positions include Managing Director of Email Metering, Chief Financial Officer and a director of OneSteel, Chief Financial Officer of BHP Steel and a director of Steel and Tube Holdings Limited (New Zealand). Bernard holds qualifications from Ecole Supérieure de Commerce, Marseille, France and an MBA, from the University of Cape Town, South Africa. He is also a former fellow of the Institute of Chartered Management Accountants, UK. Mr Carrasco was appointed as a director on 3 November 2006.
John Hughes *CEO and Managing Director*	Prior to joining the Company, John was Managing Director of ASX listed Ruralco Holdings Limited until its recent merger with Tasmanian based Roberts Limited. He was previously Managing Director of Thorn EMI Rentals Australasia ("Thorn") and led the reshaping of that company into a highly successful consumer electronics and financial services organisation. Prior to Thorn he was Managing Director of Dominos Pizza Australia and has over 25 years experience as a senior executive in a number of leading Australian and international companies including Sharp Corporation, Competitive Foods and Grace Bros. John holds a Bachelor of Commerce degree from the University of New South Wales and is a member of CEDA and a Fellow of the Australian Institute of Company Directors. Mr Hughes was appointed as a director on 3 November 2006.

Directors' report

For the year ended 31 March 2007

Name and independence status	Experience, special responsibilities, qualifications and other directorships
David Carter *Independent* *Non-Executive Director*	David Carter is a lawyer and corporate advisor who recently stepped down as a partner of a major international law firm. David has significant experience in corporate, commercial and international law. He is currently Chairman of ASX listed TSV Holdings Limited, a Director of VENCorp (the independent Victorian government regulator of gas and electricity transmission systems), and a Director of Property Investment Association of Australia Limited. David holds a Bachelor of Economics and a Bachelor of Laws (Hons) degree from Monash University, a Masters of Laws degree from Monash University and a Bachelor of Civil Law degree from Oxford University. Mr Carter was appointed as a director on 3 November 2006.
Gordon Howlett *Non-Executive Director*	Gordon Howlett was Chief Executive of the Company from 1999 to 2006 and has recently become a Non-Executive Director of the Company. Gordon is also Chairman of Kennards Hire Pty Limited. He has held previous positions including Executive General Manager of Operations at Qantas and before that was Managing Director of Avis Australia where he was instrumental in leading Avis to a leading market position throughout the Asia Pacific region. Gordon holds a Bachelor of Economics (Hons) degree from the University of Sydney and prior to joining Avis, had over 20 years experience in marketing and management positions with leading consumer goods companies including Colgate-Palmolive, Philip Morris, General Foods, Kolotex and Lifesavers. Mr Howlett was appointed as a director on 25 March 1999.
Laurence Cooklin *Non-Executive Director*	Laurence Cooklin has spent 30 years in British retailing serving as Managing Director of the Burton Group PLC and Signet (UK) PLC before joining Thorn Limited as Group Managing Director in 1999. In this latter role, he has assumed overall executive responsibility for the performance of the Thorn Rental businesses in Asia Pacific, Scandinavia and the UK. Laurence has an M.S.c. (Econ) from the London School of Economics and an MBA from the University of Chicago. Mr Cooklin was appointed as a director on 3 November 2006.
Paul Lahiff *Independent* *Non-Executive Director*	Paul Lahiff has extensive experience in the financial services sector and is currently Managing Director of Mortgage Choice Limited. Prior to Mortgage Choice Paul was Managing Director of Permanent Trustee Limited and has held senior management positions within other major finance organisations including Heritage Building Society and Westpac. Paul holds a Bachelor of Science Degree from Sydney University and is a Fellow of the Australian Institute of Management. He is currently a Director of The Cancer Council NSW and has previously been a member of a number of boards including the Trustee Corporations Association of Australia, the Australian Association of Permanent Building Societies, Cashcard Australia Limited, the House with No Steps, in addition to Permanent Trustee and Heritage Building Society. Mr Lahiff was appointed as a director on 21 May 2007.
Peter Henley *Independent* *Non-Executive Director*	Peter Henley has had a long and distinguished career in financial services generally and in consumer and commercial finance in particular, having held senior management positions with AGC, Nissan Finance and most recently GE Money. Peter is a Non-Executive Director of AP Eagers Limited and an Associate Fellow of the Australian Institute of Management. He has also been a Director of GE Motor Solutions Australia and GE Money, Singapore. Mr Henley was appointed as a director on 21 May 2007.

2. Company Secretary

Peter Eaton joined the Company in 1999 and was the Company's Finance Manager before assuming the role of Group Financial Controller in 2005 and more recently the positions of Chief Financial Officer and Company Secretary in August 2006. Peter has a detailed understanding of the business, the domestic rental market and its drivers and provides input into key management decisions. Peter's role encompasses Finance, Information Technology and Risk Management. Peter holds a Bachelor of Commerce degree from the University of Western Sydney and is a member of the Australian Society of Certified Practising Accountants (CPA).

3. Directors' meetings

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

Director	Board Meetings		Audit Risk and Compliance Committee Meetings	
	A	**B**	**A**	**B**
Bernard Carrasco	6	6	2	2
John Hughes	6	6	–	–
David Carter	6	6	2	2
Gordon Howlett	6	6	2	2
Laurence Cooklin	6	6	–	–

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

Paul Lahiff and Peter Henley have not been included in the table of director's meetings as they were appointed to the Board subsequent to the balance date.

4. Corporate Governance statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

4.1 Board of directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

In order to ensure that the Board functions and responsibilities are clearly identified, the Company has adopted a formal Board Charter.

A copy of the Board Charter is located on the Company's website (www.radio-rentals.com.au).

Board processes

To assist in the execution of its responsibilities, the Board has established an Audit, Risk and Compliance committee. This committee has a written mandate and operating procedure, which is reviewed on a regular basis. The Board has also established a Code of Conduct for the Company outlining the core principles to establish appropriate ethical standards.

The full Board currently holds scheduled meetings each year, 8-12 per annum, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise. The Board Charter requires the full Board to meet at least once per year to review the performance of the directors, committees, and senior executives, as well as, the relationship between the Board and management and matters of general corporate governance.

As the Board Charter was only adopted by the Company on 3 November 2006, a performance evaluation of the Board did not take place in the year ending 31 March 2007. However, as required by the Board Charter, it is intended that a performance evaluation of the Board be conducted in the next financial year and on an annual basis thereafter.

The agenda for Board meetings is prepared in conjunction with the Chairperson, Managing Director and Company Secretary. Standing items include the CEO report, finance report, strategic matters, governance and compliance.

Director education

The Company educates new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of directors. Directors also have the opportunity to visit Company facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to Company information

Each director has the right of access to all Board papers and other Company documents relating to the director's period of appointment and, subject to receipt of permission from the Chairperson, may seek independent professional advice from a suitably qualified adviser at the Company's expense. In order to obtain the permission of the Chairperson, the director wishing to seek external advice must provide the Chairperson with the reason for seeking the advice, the name of the person from whom the advice will be sought and an estimate of the cost of the advice. A copy of the advice received by the director must be made available to the Company. The Company ensures that the directors each have access to the Company Secretary.

The Company Secretary holds office on the terms and conditions that the Board determines, and the Board may at any time terminate the appointment of the Company Secretary.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in pages 13 and 14 of this report. The Board is currently comprised of seven members (the Company's Constitution requires a minimum of three), with members (other than the Managing Director) being subject to re-election every 3 years. The directors have a broad range of national and international expertise, with a majority having extensive knowledge of the industry in which the Company operates, and those who do not, having expertise in financial reporting, or risk management of large companies.

An independent director is a director who is not a member of management (a Non-Executive Director) and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with the exercise of their unfettered and independent judgement. Factors that the Board will take into account in making an assessment of independence include whether the director:

1. is a substantial shareholder of the Company or is otherwise associated, directly or indirectly, with a substantial shareholder of the Company
2. has within the last 3 years been employed in an executive capacity by the Company or a related body corporate or has become a director within 3 years of ceasing to hold any such employment
3. within the last 3 years has been a principal of a material professional adviser or a material consultant to the Company or another Company member or an employee materially associated with the service provided
4. is a material supplier or customer or a partner in controlling shareholder, or executive officer of a material supplier or customer of the Company or a related body corporate
5. has a material contractual relationship with the Company or a related body corporate other than as a director of the Company
6. has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
7. has any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

A professional adviser or consultant will be considered 'material' if, in the context of a financial year:

- from the Company's point of view, the amount typically payable by the Company to the professional adviser or consultant exceeds 5% of the consolidated expenses of the Company; or
- from the director's point of view, if the annual amount typically received from the Company exceeds 5% of the professional advisers or consultant's consolidated gross revenue.

A supplier will be considered 'material' if:

- from the Company's point of view, the annual amount typically payable by the Company to the supplier exceeds 5% of the consolidated expenses of the Company; or
- from the director's point of view, if the annual amount typically received from the Company exceeds 5% of the supplier's consolidated gross revenue.

A customer of the Company will be considered 'material' if:

- from the Company's point of view, the annual amount typically received by the Company from the customer exceeds 5% of the consolidated revenue of the Company; or
- from the director's point of view, the annual amount typically paid to the Company by the customer exceeds 5% of the customer's total expenses.

Applying these criteria, the Board is satisfied that Bernard Carassco, David Carter, Paul Lahiff and Peter Henley are independent. In accordance with the ASX Corporate Governance Guidelines, the Chairperson is an independent director, and the positions of Managing Director and Chairperson are held by different directors.

4.2 Nomination committee

Due to the relatively small size of the Board, a formal nomination committee has not been established and this is treated as a full Board responsibility. The Board identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the general meeting of shareholders immediately following their appointment.

The terms and conditions of the appointment and retirement of Non-Executive Directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

4.3 Remuneration committee

Due to the relatively small size of the Board, a formal remuneration committee has not been established and this is treated as a full Board responsibility. The Board reviews remuneration packages and policies applicable to the executive officers and directors and of other Company executives for the Company. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

4.4 Remuneration report

4.4.1 Principles of remuneration – audited

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the consolidated entity including the most highly remunerated S300A executives.

Remuneration levels for key management personnel and secretaries of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives. Independent advice is obtained on the appropriateness of remuneration packages of the Company given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

(i) the capability and experience of the key management personnel;
(ii) the key management personnel's ability to control the relevant performance;
(iii) the Consolidated Entity's performance; and
(iv) the growth in share price and delivering constant returns on shareholder wealth

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board through a process that considers individual, and overall performance of the Company. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance linked remuneration

Performance linked remuneration includes both short-term incentives and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as performance rights over ordinary shares of RR Australia Limited under the rules of the Performance Rights Plan.

Short-term incentive

During 2007, the Board set the key performance indicators (KPIs) for the key management personnel. The KPIs generally include measures relating to the Company, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Company and to its strategy and performance.

The financial performance objectives for 2007 are 'profit before tax and interest' and 'operating cash' compared to the budgeted amount. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety, customer satisfaction and staff development.

At the end of the financial year the Board assesses the actual performance of the Company, and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results. No bonus is awarded where performance falls below the minimum.

The Board approves the cash incentive to be paid to individuals. The method of assessment described above was chosen as it provides the Board with an objective assessment of the individual's performance.

For the year ended 31 March 2007, key management personnel short term incentives will be assessed based on a scheme created prior to listing. For 2008, the short term incentives have been reviewed and approved by the Board. The financial performance objective will be profit after tax.

Long-term incentive

Upon listing, the Company introduced a long term incentive plan. This plan (in the form of performance rights) is directly linked to criteria that relate to the performance of the Company, to ensure appropriate alignment to shareholder value over a specified timeframe. Performance rights provide the right to receive shares only if and when particular performance based hurdles are achieved.

The primary performance hurdle for instruments granted under the long term incentive plan is growth in the Company's total shareholder return ("TSR") performance measured against the comparative group of companies being companies in the ASX Small Cap Index.

Where the Company's TSR performance is rated below the 50th percentile, no performance rights vest. Staggered vesting occurs if the Company is ranked at or above the 50th percentile until the 90th percentile, when 100% of the rights vest.

The TSR performance criteria was chosen as it is widely accepted as one of the best indicators of shareholder wealth criterion as it includes share price growth, dividends and other capital adjustments.

In assessing whether the performance criteria have been met, the Board will obtain independent data which provides the Company's and comparative companies' TSR performance.

Other benefits

Key management personnel can receive additional non-cash benefits, as part of the terms and conditions of their appointment. Non-cash benefits typically include motor vehicles, payment of telephone bills and similar benefits. The Company pays fringe benefits tax on these benefits. The Company does not provide retirement benefits to any of the directors or executives, other than statutory superannuation.

Service contracts

The Company has entered into service contracts with each key management person, excluding the Managing Director and Company Secretary that are capable of termination on four weeks notice. The Company retains the right to terminate a contract immediately by making payment equal to four weeks pay in lieu of notice. The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of remuneration paid to the key management personnel but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

John Hughes, Managing Director, has a contract of employment dated 30 August 2006 with the Company. The contract specifies the duties and obligations to be fulfilled by the Managing Director and provides that the Board and Managing Director will early in each financial year, consult and agree objectives for achievement during that year.

At any time the service contract can be terminated either by the Company or John Hughes providing six months' notice. The Company may make a payment in lieu of notice of six months, equal to six months of base salary. This payment represents market practice at the time the terms were agreed.

The Managing Director has no entitlement to a termination payment in the event of removal for misconduct.

Peter Eaton, Company Secretary, has a contract of employment with the Company. This contract is capable of termination on three months' notice plus any amounts payable under the Company's redundancy policy. The Company retains the right to terminate the contract immediately.

The Company Secretary has no entitlement to a termination payment in the event of removal for misconduct.

Non-Executive Directors

Total remuneration for all Non-Executive Directors is not to exceed $400,000 per annum and is set based on advice from external advisors with reference to fees paid to other Non-Executive Directors of comparable companies.

Remuneration takes the form of a base fee plus a fixed increment for additional committee responsibilities held by each respective Non-Executive Director.

4.4.2 Directors' and executive officers' remuneration (Company and Consolidated – Audited)

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named Company executives and group executives who receive the highest remuneration:

In AUD		Short-term				Post-employment	Other long-term		Share-based payments			
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Super-annuation benefits $	$	Termination benefits $	Options and rights (B) $	Total $	Proportion of remuneration performance related %	Value of performance rights as proportion of remuneration %
Directors												
Non–Executive												
Bernard Carrasco[2] (Chairman) (appointed 3 November 2006)	2007	48,962	–	–	48,962	–	–	–	–	48,962	–	–
	2006	–	–	–	–	–	–	–	–	–	–	–
David Carter[2] (appointed 3 November 2006)	2007	27,500	–	–	27,500	–	–	–	–	27,500	–	–
	2006	–	–	–	–	–	–	–	–	–	–	–
Gordon Howlett[3]	2007	377,164	167,900	–	545,064	29,689	–	–	–	574,753	29%	–
	2006	472,076	223,866	–	695,942	37,404	1,130,860	849,567	–	2,713,773	50%	–
Laurence Cooklin (appointed 3 November 2006)	2007	–	–	–	–	–	–	–	–	–	–	–
	2006	–	–	–	–	–	–	–	–	–	–	–
Former												
Maurice Chester (Resigned 31 March 2006)	2007	–	–	–	–	–	–	–	–	–	–	–
	2006	–	–	–	–	–	–	428,412	–	428,412	–	–
Executive												
John Hughes[1]	2007	229,446	–	5,256	234,702	9,062	–	–	773,042	1,016,806	76%	76%
	2006	–	–	–	–	–	–	–	–	–	–	–

1) The remuneration of John Hughes for 2007 reflects remuneration during the period from 30 August 2006, the date of his appointment.
2) The remuneration of Bernard Carrasco and David Carter for 2007 includes a consultancy fee paid by Thorn International Holdings during the listing process.
3) The remuneration of Gordon Howlett, the former CEO, for 2006 includes a Long Term Incentive arrangement and termination benefit accrued in 2006. The long term incentive arrangement concluded in October 2005.
4) Paul Lahiff and Peter Henley have not been included in the table of Directors' and Executive Officers' remuneration as they were appointed to the Board subsequent to the balance date.

4.4.2 Directors' and executive officers' remuneration (Company and Consolidated – Audited) continued

In AUD		Short-term				Post-employment	Other long-term		Share-based payments			
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Super-annuation benefits $	$	Termination benefits $	Options and rights (B) $	Total $	Proportion of remuneration performance related %	Value of performance rights as proportion of remuneration %
Executives												
Peter Eaton, Chief Financial Officer and Company Secretary[1]	2007	168,689	214,044	9,995	392,728	15,182	–	–	54,507	462,417	58%	12%
	2006	118,846	31,027	9,995	159,868	10,696	–	–	–	170,564	18%	–
Peter Krideras, National Merchandise Manager[3]	2007	109,384	36,639	20,960	166,983	9,800	–	–	–	176,783	21%	–
	2006	107,133	36,639	20,960	164,732	9,642	125,651	–	–	300,025	54%	–
James Marshall, National Sales and Operations Manager	2007	117,291	25,872	7,528	150,691	9,656	–	–	–	160,347	16%	–
	2006	90,621	25,872	7,528	124,021	8,156	–	–	–	132,177	20%	–
Ken Wolfendale, General Manager Corporate Services	2007	97,021	9,965	14,119	121,105	8,732	–	–	–	129,837	8%	–
	2006	83,039	9,965	14,119	107,123	7,473	–	–	–	114,596	9%	–
Derrick Hubble	2007	111,369	–	7,157	118,526	10,023	–	280,545	–	409,094	–	–
(Resigned 31 October 2006)[2]	2006	188,077	81,249	14,315	283,641	16,927	264,514	–	–	565,082	61%	–
Tamora Wells	2007	89,846	21,900	–	111,746	7,936	–	51,742	–	171,424	13%	–
(Resigned 12 March 2007)	2006	85,239	21,900	–	107,139	7,494	–	–	–	114,633	19%	–
Total remuneration: directors and key management personnel (consolidated)	2007	1,376,672	476,320	65,015	1,918,007	100,080	–	332,287	827,549	3,177,923		
	2006	1,145,031	430,518	66,917	1,642,466	97,792	1,521,025	1,277,979	–	4,539,262		
Total remuneration: directors and key management personnel (company)	2007	683,072	167,900	5,256	856,228	38,751	–	–	827,549	1,722,528		
	2006	472,076	223,866	–	695,942	37,404	1,130,860	1,277,979	–	3,142,185		

1) The remuneration of Peter Eaton for 2007 includes a Short Term Incentive paid by Thorn International Holdings relating to the listing process.
2) The remuneration of Derrick Hubble for 2006 includes a Long Term Incentive arrangement accrued in 2006. The long term incentive arrangement concluded in October 2005.
3) The remuneration of Peter Krideras for 2006 includes a Long Term Incentive arrangement accrued in 2006. The long term incentive arrangement concluded in October 2005.

Notes in relation to the table of directors' and executive remuneration

A. The short term incentive bonus is for performance during the 31 March 2007 financial year. These bonuses are granted annually following the finalisation of the annual accounts. As the allocation for the amounts to be granted in respect of the 2007 financial year had not been finalised as at the date of the Directors' report, 2006 actual payments are shown as an estimate for the 2007 allocations for key management personnel.

B. Non-monetary benefits as disclosed in both tables includes cost of providing a motor vehicle and any fringe benefits tax attributable thereto.

C. The fair value of the performance rights is calculated at the date of grant using a Monte Carlo simulation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the performance rights allocated to this reporting period. In valuing the performance rights, market conditions have been taken into account.

Grant date	Expiry date	Fair value per performance right	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
13 Dec 2006	13 Jun 2010	$0.54	Nil	$0.74	30%	5.9%	6.25%
13 Dec 2006	13 Jun 2010	$0.48	Nil	$0.74	30%	5.9%	6.25%
13 Dec 2006	13 Jun 2010	$0.42	Nil	$0.74	30%	5.9%	6.25%

4.4.3 Analysis of bonuses included in remuneration – unaudited

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company and the five highest paid Company executives are detailed below.

	Short Term Incentive Bonus		
	Included in remuneration $	% Vested in year	% Forfeited in year
Executives			
Peter Eaton	31,027	87%	13%
Peter Krideras	36,639	85%	15%
James Marshall	25,872	57%	43%
Ken Wolfendale	9,965	80%	20%
Tamora Wells	21,900	88%	12%

The allocation for the amounts to be granted in respect of the 2007 financial year had not been finalised as at the date of the Directors' report. Therefore 2006 actual payments, amounts vested and forfeited are shown as they are representative of the 2007 allocations for key management personnel.

4.4.4 Equity instruments – unaudited

Analysis of performance rights granted as remuneration

Details of the vesting profile of the performance rights granted as remuneration to each director of the Company and each of the five named Company executives and relevant group executives are detailed below:

	Performance rights granted		% Vested in year	% Forfeited in year	Financial years in which grant vests	Values yet to vest $	
	Number	Date				Min (a)	Max (b)
Director							
John Hughes	500,000	13 Dec 2006	–	–	31 March 2008	Nil	–
	500,000	13 Dec 2006	–	–	31 March 2009	Nil	–
	500,000	13 Dec 2006	–	–	31 March 2010	Nil	–
Executive							
Peter Eaton	200,000	13 Dec 2006	–	–	31 March 2008	Nil	–
	200,000	13 Dec 2006	–	–	31 March 2009	Nil	–
	200,000	13 Dec 2006	–	–	31 March 2010	Nil	–

(a) The minimum value of the performance rights to vest is $nil as the performance rights criteria may not be met and consequently the performance rights may not vest.

(b) The maximum value of the performance rights yet to vest is not determinable as it depends on the market price of shares of the Company on the Australia Securities Exchange at the date the performance rights are exercised.

Analysis of movements in performance rights

The movement during the reporting period, by value, of performance rights over ordinary shares in RR Australia Limited held by each Company director and each of the five named Company executives and relevant group executives are detailed below:

Value of performance rights

	Granted in year $ (a)	Exercised in year $	Forfeited in year $	Total value in year $
John Hughes	720,000	–	–	720,000
Peter Eaton	288,000	–	–	288,000
	1,008,000	–	–	1,008,000

(a) The value of performance rights granted in the year is the fair value of the performance rights calculated at grant date using a Monte Carlo simulation model. The total value of the performance rights granted is included in the table above. This amount is allocated to remuneration over the vesting period.

Performance rights over equity instruments granted as remuneration

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

	Held at 1 April 2006	Granted as Compensation	Exercised	Held at 31 March 2007	Vested during the year	Vested and exercisable at 31 March 2007
John Hughes	–	1,500,000	–	1,500,000	–	–
Peter Eaton	–	600,000	–	600,000	–	–

4.5 Audit, Risk and Compliance committee

The Audit, Risk and Compliance committee has a documented charter, approved by the Board. All members are Non-Executive Directors with a majority being independent. The Chairperson may not be the Chairperson of the Board. The Audit, Risk and Compliance committee advises the Board on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

The members of the Audit, Risk and Compliance committee during the year were:

- David Carter, Bachelor of Economics and Bachelor of Laws (Hons), Master of Law, Bachelor of Civil Law, (Independent Chairman) – Non-Executive
- Bernard Carrasco, MBA – Non-Executive
- Gordon Howlett, Bachelor of Economics (Hons) – Non-Executive

The Company Secretary, Peter Eaton, acts as secretary to the committee.

The external auditors and the Managing Director are invited to Audit, Risk and Compliance committee meetings at the discretion of the committee. The committee is required to meet at least twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 15.

The Managing Director and the Chief Financial Officer declared in writing to the Board that the financial records of the Company and the consolidated entity for the financial year have been properly maintained, the Company's financial reports for the financial year ended 31 March 2007 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The responsibilities of the Audit, Risk and Compliance committee include:

- the accuracy and completeness of the financial statements of the Company;
- the integrity of the Company's accounting and financial reporting;
- the Company's accounting policies and practices and consistency with accounting standards;
- the scope of work, independence and performance of the external auditors;
- compliance with legal and regulatory requirements;
- compliance with the Company's risk policy framework;
- the Company's control environment;
- the overall efficiency and effectiveness of the Company's financial operations; and
- the Company's overall risk management program.

The Audit, Risk and Compliance committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend Board approval of the financial report; and
- review the results and findings of the external audit, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

4.6 Risk management

Oversight of the risk management system

The Board oversees the establishment, implementation and review of the Company's risk management system. The Audit, Risk and Compliance committee is responsible for establishing and implementing the risk management policies for assessing, monitoring and managing operational, financial reporting, and compliance risks for the Company.

The Managing Director has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and been found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

Risk management and compliance and control

The Company strives to ensure that its products are of the highest standard. Practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- financial exposures are controlled;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel; and

- financial reporting accuracy and compliance with the financial reporting regulatory framework.

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management.

Financial reporting

The Managing Director and the Chief Financial Officer have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Actual results are reported against budgets approved by the directors. Revised forecasts for the year are prepared quarterly.

Internal audit

The internal auditors assist the Board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above mentioned compliance and control systems.

The results of internal audits are reported on a monthly basis to the Board.

4.7 Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. In order to promote ethical and responsible decision making, the Company has implemented a Code of Conduct to guide the directors and senior executives. Further, the Company has implemented a formal Securities Trading Policy in order to formalise the Company's position on employees trading in the Company's securities. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board reviews the Code of Conduct regularly and processes are in place to promote and communicate these policies. Both of these policies are available on the Company's website.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and the consolidated entity are set out in note 26 to the financial statements.

Code of conduct

The Company's code of conduct aims to maintain appropriate core Company values and objectives. The Company has advised each director, manager and employee that they must comply with the Code of Conduct.

The Company's code of conduct covers issues such as delivering shareholder value, managing conflicts of interest, confidentiality, fair and honest dealings, occupational health and safety, equal opportunity and compliance with laws. The Code encourages reporting of unethical behaviour.

Securities trading policy

The Company and the consolidated entity has a Securities Trading Policy, which sets out the circumstances under which directors, senior executives, and employees of the Company and the consolidated entity may deal in securities with the objective that no director, senior executive or other employee will contravene the requirements of the Corporations Act 2001 or the ASX Listing Rules.

The policy outlines the black-out periods for the Company as the month immediately before:

- the release of the Company's half yearly or yearly results; or
- the Annual General Meeting.

The policy is reproduced in full on the Company's website.

4.8 Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases. The Continuous Disclosure Policy is available on the Company's website.

In summary, the Continuous Disclosure Policy operates as follows:

- the policy identifies information that needs to be disclosed;
- the Managing Director, the Chief Financial Officer and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- regular reporting including monthly reports of executives to the Managing Director and Board reports assist in identifying the occurrence of any significant event;
- there is a standing agenda item at each Board meeting dealing with information that may require disclosure; and
- promoting compliance by emphasising that if a person becomes aware of any information that may have a material effect on the price of the Company's

securities, they must immediately inform the Company Secretary, Chief Financial Officer or the Managing Director.

The Company does not have a formal shareholder communication policy, however it provides information to shareholders via the Company's website, which has links to recent company announcements and past annual reports, results presentations and various ASX pages, including the current share price.

The Board supports full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor is requested to attend annual general meetings in order to answer shareholder questions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

5. Principal activities

The principal activities of the consolidated entity during the course of the financial year were the renting and sale of browngoods, whitegoods, PC's and furniture products. There were no significant changes in the nature of the activities of the Company during the year.

5.1 Operating and financial review

Increases were achieved in both revenue and profit for the 2006/07 financial year with total revenues growing from $87,739,000 to $101,039,000, a 15% improvement.

The growth in revenue was primarily attributable to finance lease revenues, which increased from $11,296,000 to $21,773,000, an improvement of 93%. Operating lease revenue increased from $76,433,000 to $79,266,000, an improvement of 4%.

The increase in gross profit from $60,939,000 to $64,510,000, a 6% improvement, resulted in net profit after tax increasing 85%, from $3,541,000 to $6,542,000.

During the period there were a number of factors that assisted in generating growth and providing an expanded platform for future development of the consolidated entity.

The national furniture launch in April/May provided a strong impetus for the start of the financial year and now accounts for some 20% of new business. Continued growth is anticipated in this sector given further marketing exposure of the range and hence increased consumer awareness.

Plasma/LCD televisions and computers also registered solid gains, particularly in the last quarter when market price decreases enabled a repositioning of rental rates to a level that enabled far greater affordability for the target markets. The products should provide sustained growth opportunities as prices continue to abate, although at slower rates than experienced over the last year.

Increased marketing expenditure also had a positive impact in supporting these product initiatives.

Although whitegoods, which includes kitchen and laundry appliances, is a fairly traditional area of business with no major innovations, it remained a very solid contributor to the Company's performance. Side by side refrigerators and water efficient front loading washing machines continue to grow in popularity, particularly with young families.

5.2 Shareholder returns

The Company listed on the Australian Securities Exchange on 13 December 2006 and at the time of listing a total of 127,360,000 shares were on issue at a value of $0.50 per share. The number of shares has not changed since that date.

	2007
Net profit attributable to equity holders of the parent	$6,542,000
Basic EPS (weighted average)	11.77c
Diluted EPS (including performance rights)	11.64c
Proposed dividend per share	0.97c
Alternative	
Effective basic EPS based on total number of shares on issue at balance date	5.14c

Due to a major capital restructure on listing the alternative denominator is considered to provide more meaningful earnings per share information.

Review of financial condition

Capital structure and treasury policy

The Consolidated entity has a strong capital structure supported by a net debt to equity ratio of 1.87%. This low level of gearing provides the business with a strong platform for future growth options.

Liquidity and funding

The Consolidated entity has unused funding facilities as at 31 March 2007 of $12,000,000 and has sufficient funds available to finance its operations.

Cash flows from operations

Net cash flows from operating activities were $5,816,000 as compared to $4,370,000 in the prior year. Net cash flows generated this year from operating activities, as well as net funds raised from the public float, have contributed to the repayment of loans to related parties and the acquisition of additional and replacement rental assets.

Impact of legislation and other external requirements

There has been no impact on the operations of the business from legislation changes.

Directors' report

For the year ended 31 March 2007

6. Dividends

There were no dividends paid or declared by the Company to the members during the financial year. Subsequent to the balance date, the directors proposed a fully franked final dividend for the year of 0.97 cents per share based on earnings attributable from the date of allotment of shares as a result of the public float of the Company until 31 March 2007.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 March 2007 and will be recognised in subsequent financial reports.

7. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

8. Likely developments

The Company will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

9. Directors' interests

The relevant interest of each director in the shares and right or options over shares as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	RR Australia Limited	
	Ordinary shares	Performance Rights over ordinary shares
Bernard Carrasco	50,000	Nil
Gordon Howlett	60,000	Nil
John Hughes	1,673,000	1,500,000
Laurence Cooklin	50,000	Nil
David Carter	200,000	Nil
Paul Lahiff	Nil	Nil
Peter Henley	Nil	Nil

10. Performance rights

Performance rights granted to directors and officers of the Company

Since the end of the financial year, the Company has not granted performance rights over unissued ordinary shares in the Company. As noted on page 22, two officers of the Company have been granted performance rights, which have not yet vested.

Unissued shares under options

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

11. Indemnification and insurance of officers and auditors

Indemnification

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

No indemnification has been provided to auditors or former director and officers of the Company.

Insurance premiums

During the financial year the Company has paid insurance premiums of $35,738 in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving misconduct.

The premiums were paid in respect of the following officers of the Company and its controlled entities:

- premiums totalling $35,738 were paid in respect of the current directors and officers of the Company.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

12. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor;
- the non-audit services provided do not undermine the general principles relating to auditor independence; and
- as set out in Professional Statement F1 Professional independence, they were not involved in reviewing or auditing the auditor's own work, acting in a management or

decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Consolidated entity, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 6.

13. Environmental legislation

The Company's operations are not subject to significant environmental regulations under either Commonwealth or State legislation. The directors are of the belief that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

14. Lead Auditor's independence declaration

The Lead auditor's independence declaration is set out on page 28 and forms part of the Directors' Report for financial year ended 31 March 2007.

15. Rounding off

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

This report is made with a resolution of the directors:

Bernard Carrasco
Chairman

Dated at Sydney
29 May 2007

Lead Auditor's independence declaration

For the year ended 31 March 2007

To: The Directors of RR Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2007 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Nicola Davis
Partner

Dated at Sydney
29 May 2007

Income statements

For the year ended 31 March 2007

In thousands of AUD	Note	Consolidated 2007	Consolidated 2006	The Company 2007	The Company 2006
Operating lease rental revenue		79,266	76,443	–	–
Finance lease sales revenue		13,812	7,101	–	–
Finance lease interest revenue		7,961	4,195	–	–
Cost of sales		(36,529)	(26,800)	–	–
Gross Profit		64,510	60,939	–	–
Other income	3	615	1,475	1,310	–
Personnel expenses	4	(24,558)	(25,311)	(905)	–
Depreciation and amortisation		(1,879)	(2,196)	–	–
Administrative expenses		(8,995)	(8,224)	–	–
Occupancy		(5,549)	(6,418)	–	–
Transport		(4,569)	(4,310)	–	–
Maintenance and other overhead costs		(7,278)	(7,560)	(471)	–
Profit Before Financing Costs		12,297	8,395	(66)	–
Financial income	5	326	238	66	–
Financial expenses	5	(2,683)	(3,564)	–	–
Net Financing Costs		(2,357)	(3,326)	66	–
Profit Before Tax		9,940	5,069	–	–
Income tax expense	7	(3,398)	(1,528)	–	–
Profit For The Period		6,542	3,541	–	–
Attributable To:					
Equity holders of the Company		6,542	3,541	–	–
Basic earnings per share from continuing operations (cents)	20	11.77	–	–	–
Diluted earnings per share from continuing operations (cents)	20	11.64	–	–	–

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 33 to 52.

Statements of changes in equity

For the year ended 31 March 2007

In thousands of AUD	Share capital	Retained earnings	Equity remuneration reserve	Total equity
Consolidated				
Balance at 1 April 2005	25,000	(21,026)	–	3,974
Total recognised income and expense	–	3,541	–	3,541
Balance at 31 March 2006	25,000	(17,485)	–	7,515
Balance at 1 April 2006	25,000	(17,485)	–	7,515
Total recognised income and expense	–	6,542	–	6,542
Issue of shares	56,425	–	637	57,062
Issues of performance rights	–	–	191	191
Cancellation of shares	(16,908)	–	–	(16,908)
Offset of issued capital against retained losses	(14,868)	14,868	–	–
Balance at 31 March 2007	49,649	3,925	828	54,402
The Company				
Balance at 1 April 2005	25,000	–	–	25,000
Total recognised income and expense	–	–	–	–
Balance at 31 March 2006	25,000	–	–	25,000
Balance at 1 April 2006	25,000	–	–	25,000
Issue of shares	56,425	–	637	57,062
Issues of performance rights	–	–	191	191
Cancellation of shares	(16,908)	–	–	(16,908)
Balance at 31 March 2007	64,517	–	828	65,345

The statements of changes in equity are to be read in conjunction with the notes of the financial statements set out on pages 33 to 52.

Balance sheets

For the year ended 31 March 2007

In thousands of AUD	Note	Consolidated 2007	Consolidated 2006	The Company 2007	The Company 2006
Assets					
Cash and cash equivalents	8	6,982	4,753	–	–
Trade and other receivables	9	9,560	7,723	2,520	7,145
Total current assets		16,542	12,476	2,520	7,145
Trade and other receivables	9	10,401	5,276	40,345	25,000
Deferred tax assets	11	3,623	4,146	–	–
Rental assets	12	36,753	39,191	–	–
Property, plant and equipment	12	1,838	3,377	–	–
Investment in Subsidiary		–	–	25,000	–
Intangible assets	13	15,604	15,604	–	–
Total Non-Current Assets		68,219	67,594	65,345	25,000
Total Assets		84,761	80,070	67,865	32,145
Liabilities					
Trade and other payables	14	14,849	14,433	–	–
Employee benefits	16	2,319	1,835	–	–
Unsecured non-interest bearing loan from immediate parent entity		–	6,000	–	6,000
Income tax payable	10	2,520	1,145	2,520	1,145
Provisions	17	2,167	3,241	–	–
Total current liabilities		21,855	26,654	2,520	7,145
Interest-bearing loans and borrowings	15	8,000	44,543	–	–
Employee benefits	16	345	755	–	–
Provisions	17	159	603	–	–
Total Non-Current Liabilities		8,504	45,901	–	–
Total Liabilities		30,359	72,555	2,520	7,145
Net Assets		54,402	7,515	65,345	25,000
Equity					
Issued capital		49,649	25,000	64,517	25,000
Reserves		828	–	828	–
Retained earnings		3,925	(17,485)	–	–
Total equity attributable to equity holders of the Company		54,402	7,515	65,345	25,000
Total Equity		54,402	7,515	65,345	25,000

The balance sheets are to be read in conjunction with the notes of the financial statements set out on pages 33 to 52.

Statements of cash flows

For the year ended 31 March 2007

In thousands of AUD	Note	Consolidated 2007	Consolidated 2006	The Company 2007	The Company 2006
Cash Flows From Operating Activities					
Cash receipts from customers		118,244	98,989	–	–
Acquisition of rental assets	12	(30,295)	(26,136)	–	–
Proceeds from sale of rental assets		1,736	2,594	–	–
Cash paid to suppliers and employees		(79,967)	(67,809)	–	–
Cash generated from operations		9,718	7,638	–	–
Interest paid		(2,728)	(3,506)	–	–
Interest received		326	238	66	–
Income tax paid		(1,500)	–	–	–
Net cash from operating activities	25	5,816	4,370	66	–
Cash Flows From Investing Activities					
Proceeds from sale of property, plant and equipment		5	31	–	–
Acquisition of property, plant and equipment	12	(688)	(1,215)	–	–
Net Cash Used In Investing Activities		(683)	(1,184)	–	–
Cash Flows From Financing Activities					
Proceeds from borrowings		10,500	–	–	–
Repayment of borrowings		(69,829)	(3,998)	(22,908)	–
Loans advanced to related entities		–	–	(33,583)	–
Proceeds from the issue of share capital		56,425	–	56,425	–
Net Cash Used In Financing Activities		(2,904)	(3,998)	(66)	–
Net increase /(decrease) in cash and cash equivalents		2,229	(812)	–	–
Cash and cash equivalents at 1 April		4,753	5,565	–	–
Cash And Cash Equivalents At 31 March	8	6,982	4,753	–	–

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 33 to 52

1. Significant accounting policies

RR Australia Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is W1, 391 Park Rd, Regents Park, NSW, 2143. The consolidated financial report of the Company for the financial year ended 31 March 2007 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity'). The consolidated entity is primarily involved in the rental and sale of browngoods, whitegoods, PC's and furniture products.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB") and the Corporations Act 2001. The financial reports of the consolidated entity also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 29 May 2007.

The standards and amendments which were available for early adoption but have not been applied by the Company or the consolidated entity in these financial statements are:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005–10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and measurement, AASB 1 First–time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005–10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 Presentation of Financial Statements (October 2006) has deleted the Australian specific illustrative Financial Report Structure and reinstated the current IASB 1 guidance on illustrative Financial Statement Structure. The revised AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.

The initial application of AASB 7, and AASB 2005–10 is not expected to have a significant impact on the financial results of the consolidated entity or the Company, however, management's analysis of these standards is still ongoing.

The financial report is presented in Australian dollars.

The financial report has been prepared on the basis of historical costs except where otherwise stated.

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

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note q.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(c) Revenue

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. The following specific recognition criteria must also be met before revenue is recognised:

Lease rental revenue

RR Australia Limited derives rental revenue from Finance and Operating leases.

Finance leases arise where substantially all of the risks and benefits incidental to ownership of the leased asset pass to the lessee. Finance lease revenue is recognised at the time the rental contract is entered into based on the present value of the minimum lease payments, with interest income recognised over the life of the lease.

Notes to the consolidated financial statements

For the year ended 31 March 2007

Operating leases arise where substantially all of the risk and benefits incident to ownership of the leased asset remain with the lessor. Payments under operating leases are due and payable on a monthly basis in advance. Operating lease rental revenue is recognised as it accrues, net of discounts, and including rebates.

Revenue also arises from charges such as a late fees, termination fees and damage liability reduction fees. These revenues are recognised when due and payable.

Cost of sales

Finance lease costs of sales are recognised at the time of sale and are based on the cost of the item sold.

Operating lease costs of sales are represented by the depreciation of rental assets, bad debts and rental asset write offs. Depreciation of rental assets is further discussed at note (i).

(d) Income tax

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

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities. The head entity in conjunction with other members of the tax–consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(e) Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, and the unwinding of the discount on provisions. All borrowing costs are recognised in the profit and loss using the effective interest rate method.

(f) Intangible assets

Business combinations

Business combinations prior to 1 April 2003

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Business combinations since 1 April 2003

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash–generating units and is no longer amortised but is tested annually for impairment (see accounting policy (j)).

(g) Financial instruments

Non–derivative financial instruments

Non–derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable costs, except as described below. Subsequent to initial recognition non–derivative financial instruments are measured as described below.

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

Cash, short–term deposits and bank overdrafts are carried at face value of the amounts deposited or drawn.

(h) Trade and other receivables

Finance lease receivables are recognised at the present value of the minimum lease payments. The present value is calculated by discounting the minimum lease payments due, at the interest rate implicit in the lease.

Trade and other receivables are stated at their amortised cost less impairment losses.

Payments under rental contracts are due and payable on a monthly and fortnightly basis in advance.

(i) Rental assets and property, plant and equipment

Recognition and measurement

Items of rental assets, property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided on rental assets, property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its estimated useful life. Where assets are installed on Rent Try Buy contracts and their standard estimated useful life is greater than the period at which a similar item can be purchased for $1, an estimate of the number of assets expected to be purchased for $1 is made and additional depreciation expensed based on the average cost of assets installed.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives in the current and comparative periods are as follows:

• freehold buildings	20 Years
• leasehold property	The lease term
• plant and equipment	3 – 10 Years
• rental assets	3 – 6 Years

The residual value, the useful life and the depreciation method applied to an asset are re–assessed at least annually.

(j) Impairment

The carrying amounts of the RR Australia Limited's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date.

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

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

The recoverable amount of RR Australia Limited receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of receivables that are not assessed as impaired individually is performed by placing them into portfolios with similar risk profiles and undertaking a collective assessment of impairment, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of rental assets is assessed through a value in use calculation. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash–generating unit to which the asset belongs.

Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Interest–bearing loans and borrowings

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

(l) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long service leave

The consolidated entity's net obligation in respect of long–term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on–costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries, annual leave, sick leave and non–monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that RR Australia Limited expects to pay as at the reporting date including on–costs, such as workers remuneration insurance and payroll tax.

(iv) Share–based payment transactions

The Performance Rights Plan allows certain consolidated entity employees to receive shares of the Company. The fair value of performance rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights. The fair value of the performance rights granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the performance rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where the forfeiture is only due to share prices not achieving the threshold for vesting.

(v) Termination benefits

Termination benefits are recognised as an expense when the consolidated entity's is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the retirement date.

(m) Provisions

A provision is recognised in the balance sheet when RR Australia Limited has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre–tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Makegood costs for leased property

A provision for makegood costs for leased property is recognised when a makegood obligation exists in the lease contracts.

The provision is the best estimate of the present value of the expenditure required to settle the makegood obligation at the reporting date, based on current legal requirements and technology. Future makegood costs are reviewed annually and any changes are reflected in the present value of the makegood provision at the end of the reporting period. The unwinding of the discounting is recognised as a finance cost.

Surplus lease space

A provision for surplus lease space is recognised when the space is no longer required by the business in undertaking its revenue generating activities and the Company is party to a non–cancellable lease. The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology.

Redundancy and retirement benefits

A provision for staff redundancy is recognised when the decision has been taken that the position is no longer required and the Company is committed to settle a redundancy obligation.

A provision for retirement benefits is recognised when an employee announces retirement from the business. In addition to statutory requirements, an amount is provided for any negotiated amount.

Stamp duty

A provision for stamp duty has been recognised as the Company has an obligation to pay stamp duty on rental contracts on an ongoing basis. The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date.

Store relocation

A provision for store relocation is recognised when the decision has been taken to close or relocate a store. The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology.

(n) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non–interest bearing and are normally settled on a 30 day basis.

(o) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight–line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, and interest receivable on funds invested. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(p) Goods and services tax

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

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

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

(q) Accounting estimates

The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

Note 13 contains information about the assumptions and their risk factors relating to goodwill impairment. The consolidated entity assesses whether goodwill is impaired at least annually. The calculations include an estimation of the recoverable amount of the cash generating unit to which the goodwill is allocated.

(ii) Rent Try Buy asset depreciation

Where assets are installed on Rent Try Buy contracts and their standard estimated useful life is greater than the period at which a similar item can be purchased for $1, an estimate of the number of assets expected to be purchased for $1 is made and additional depreciation expensed based on the average cost of assets installed.

(r) Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees.

2. Segment reporting

The consolidated entity operates predominantly in one industry, being the rental and sale of browngoods, whitegoods, PC's and furniture products, and operates in one geographic segment, Australia. All revenues are generated externally.

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the consolidated financial statements

For the year ended 31 March 2007

3. Other income

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Net gain on retail sales	8	3	–	–
Net gain on disposal of rental assets	924	1,282	–	–
Net loss on disposal of property, plant and equipment	(317)	–	–	–
Thorn Australia Pty Limited management fee	–	–	1,310	–
Thorn Rentals New Zealand Management Fees – a director related entity.	–	190	–	–
	615	1,475	1,310	–

4. Personnel expenses

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Wages and salaries	21,860	22,343	76	–
Contributions to defined contribution superannuation funds	1,460	1,460	1	–
Increase / (decrease) in liability for annual leave	(49)	8	–	–
Increase in liability for long service leave	130	159	–	–
Termination Benefits	329	1,341	–	–
Equity settled share–based payment transactions	828	–	828	–
	24,558	25,311	905	–

5. Finance income and expenses

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Interest income on bank deposits	326	238	66	–
Finance income	326	238	66	–
Interest expense on financial liabilities	(2,683)	(3,564)	–	–
Finance expense	(2,683)	(3,564)	–	–
Net finance income and expense	(2,357)	(3,326)	66	–

6. Auditors remuneration

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Audit services				
KPMG Australia:				
Audit of financial reports	385,000	245,000	–	–
	385,000	245,000	–	–
Other services				
KPMG Australia				
Taxation services	109,000	125,000	–	–
	109,000	125,000	–	–

7. Income tax expense

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Recognised in the Income Statement				
Current tax expense				
Current year	2,927	1,145	–	–
Adjustment for prior years	(52)	–	–	–
Deferred tax expense				
Origination and reversal of temporary differences	523	1,540	–	–
Benefit of tax losses recognised	–	(1,157)	–	–
	523	383	–	–
Total income tax expense in income statement	3,398	1,528	–	–

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Numerical reconciliation between tax expense and pre–tax net profit				
Profit before tax	9,940	5,069	–	–
Prima facie income tax using the domestic corporation tax rate of 30% (2006: 30%)	2,992	1,520	–	–
Increase in income tax expense due to:				
Non–deductible expenses	458	8	–	–
Over provided in prior years	(52)	–	–	–
Income tax expense on pre–tax net profit	3,398	1,528	–	–

8. Cash and cash equivalents

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Bank balances	6,932	4,703	–	–
Call deposits	50	50	–	–
Cash and cash equivalents	6,982	4,753	–	–
Cash and cash equivalents in the statement of cash flows	6,982	4,753	–	–

9. Trade and other receivables

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Current				
Trade receivables	1,585	1,681	–	–
Finance lease receivables	5,593	3,843	–	–
Lease deposits	463	496	–	–
Receivables due from a director related entity (Thorn Rentals New Zealand).	–	285	–	–
Intercompany income tax receivable	–	–	2,520	1,145
Receivables due from a controlled entity (Thorn Australia)	–	–	–	6,000
Other receivables and prepayments	1,919	1,418	–	–
	9,560	7,723	2,520	7,145
Non–current				
Receivables from a controlled entity (Thorn Australia)	–	–	40,345	25,000
Finance lease receivables	10,401	5,276	–	–
Finance lease receivables	10,401	5,276	–	–

Trade receivables are shown net of impairment losses amounting to $650,000 (2006: $540,000).

10. Current tax assets and liabilities

The current tax liability for the consolidated entity of $2,520,000 (2006: $1,145,000) and for the Company of $2,520,000 (2006: $1,145,000) represent the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax–consolidated group has assumed the current tax liability (asset) initially recognised by the members in the tax–consolidated group.

11. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	Assets 2007	2006	Liabilities 2007	2006	Net 2007	2006
Consolidated						
Property, plant and equipment	5,845	3,783	–	–	5,845	3,783
Makegood	–	–	(25)	(49)	(25)	(49)
Trade and other receivables	195	161	–	–	195	161
Finance Lease Receivables	–	–	(4,798)	(2,735)	(4,798)	(2,735)
Accruals	1,308	1,451	–	–	1,308	1,451
Provisions	1,098	1,535	–	–	1,098	1,535
Tax assets / (liabilities)	8,446	6,930	(4,823)	(2,784)	3,623	4,146

12. Property, plant and equipment, and rental assets

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated				
In thousands of AUD	Land and buildings	Leasehold improvements	Rental assets	Plant and equipment	Total
Cost					
Balance at 1 April 2005	66	68	111,186	10,684	122,004
Additions	4	2	26,136	1,209	27,351
Disposals	–	–	(27,750)	(118)	(27,868)
Balance at 31 March 2006	70	70	109,572	11,775	121,487
Balance at 1 April 2006	70	70	109,572	11,775	121,487
Additions	–	–	30,295	688	30,983
Disposals	–	(2)	(37,830)	(1,815)	(39,647)
Balance at 31 March 2007	70	68	102,037	10,648	112,823

	Consolidated				
In thousands of AUD	Land and buildings	Leasehold improvements	Rental assets	Plant and equipment	total
Depreciation and Impairment Losses					
Balance at 1 April 2005	35	61	71,159	6,330	77,585
Depreciation charge for the year	2	1	19,192	2,196	21,391
Disposals	–	–	(19,970)	(87)	(20,057)
Balance at 31 March 2006	37	62	70,381	8,439	78,919
Balance at 1 April 2006	37	62	70,381	8,439	78,919
Depreciation charge for the year	2	1	21,073	1,876	22,952
Disposals	–	(1)	(26,170)	(1,468)	(27,639)
Balance at 31 March 2007	39	62	65,284	8,847	74,232
Carrying amounts					
At 1 April 2005	31	7	40,027	4,354	44,419
At 31 March 2006	33	8	39,191	3,336	42,568
At 1 April 2006	33	8	39,191	3,336	42,568
At 31 March 2007	31	6	36,753	1,801	38,591

13. Intangible assets

In thousands of AUD	Consolidated Goodwill	Total
Cost		
Balance at 1 April 2005	22,678	22,678
Balance at 31 March 2006	22,678	22,678
Balance at 1 April 2006	22,678	22,678
Balance at 31 March 2007	22,678	22,678
Amortisation and impairment losses		
Balance at 1 April 2005	7,074	7,074
Balance at 31 March 2006	7,074	7,074
Balance at 1 April 2006	7,074	7,074
Balance at 31 March 2007	7,074	7,074
Carrying amounts		
At 1 April 2005	15,604	15,604
At 31 March 2006	15,604	15,604
At 1 April 2006	15,604	15,604
At 31 March 2007	15,604	15,604

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

In thousands of AUD	Consolidated 2007	2006
Thorn Australia Pty Ltd	15,604	15,604
Total	15,604	15,604

The recoverable amount of the cash generating unit above is determined based on value-in-use calculation. Value-in-use is calculated based on the present value of cashflow projections over a 5 year period and the following assumptions:

- sales growth of 3% per annum;
- operating cost growth of 3% per annum; and
- a pre tax discount rate of 13.08%.

14. Trade and other payables

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Current				
Trade payables	7,592	7,100	–	–
Other creditors and accruals	4,406	4,787	–	–
Deferred rental revenue	2,765	2,426	–	–
Property lease accrual	86	120	–	–
	14,849	14,433	–	–

15. Interest bearing loans and borrowings

In thousands of AUD	Consolidated 2007	2006	The Company 2007	2006
Non–current liabilities				
Secured bank loans	8,000	7,000	–	–
Unsecured interest bearing loan from a director related entity (Thorn Finance Limited)	–	37,543	–	–
	8,000	44,543	–	–

Financing facilities

	Consolidated 2007	2006	The Company 2007	2006
Bank facility available	20,000	10,000	–	–
	20,000	10,000	–	–
Bank facility utilised at balance date	8,000	7,000	–	–
	8,000	7,000	–	–
Bank facility not utilised at reporting date	12,000	3,000	–	–
	12,000	3,000	–	–

Financing arrangements

Bank loans

The bank loan is provided to Thorn Australia Pty Limited by the Westpac Banking Corporation. The loan is denominated in Australian dollars. The loan commenced on 8 December 2006 for a term of 2 years. The loan is available to the consolidated entity in two tranches:

- Tranche A is a multi option facility to the value of $15,000,000. Tranche A includes an overdraft facility to the value of $5,000,000. The total drawing on the multi option facility and the overdraft cannot exceed $15,000,000.
- Tranche B is a cash advance facility. These funds are available to the consolidated entity subject to business case approval by the financier.

Notes to the consolidated financial statements

For the year ended 31 March 2007

16. Employee benefits

In thousands of AUD	Consolidated 2007	Consolidated 2006	The Company 2007	The Company 2006
Current				
Salaries and wages accrued	53	60	–	–
Liability for long-service leave	873	333	–	–
Liability for annual leave	1,393	1,442	–	–
	2,319	1,835	–	–
Non Current				
Liability for long–service leave	345	755	–	–
	345	755	–	–

Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as expense was $1,460,000 for the financial year ended 31 March 2007 (2006: $1,460,000).

17. Provisions

In thousands of AUD	Make good	Store relocation	Surplus lease space	Retirement benefits	Stamp duty	total
Consolidated						
Balance at 1 April 2006	1,258	77	470	1,386	653	3,844
Provisions made during the year	46	–	–	–	–	46
Provisions used during the year	(89)	(70)	(403)	(492)	(573)	(1,627)
Unwind of discount	63	–	–	–	–	63
Balance at 31 March 2007	1,278	7	67	894	80	2,326
Current	1,119	7	67	894	80	2,167
Non–current	159	–	–	–	–	159
	1,278	7	67	894	80	2,326
The Company						
Balance at 1 April 2006 and 31 March 2007	–	–	–	–	–	–

Make good

A provision for makegood costs for leased property is recognised when a makegood obligation exists in the lease contracts. The provision is initially recognised at the inception of the lease.

Surplus lease space

In the 1997 financial year the consolidated entity entered into a non-cancellable lease for warehousing facilities which, due to changes in its activities, the consolidated entity ceased to use by 31 March 2006. The facilities have not been sublet.

Retirement benefits

The provision relates to retention and other payments relating to the former CEO payable upon his retirement as a Non-Executive Director no later than 30 June 2007.

18. Capital and reserves

In thousands of AUD	The Company ordinary shares 2007	2006
Share capital		
On issue at the beginning of year	25,000	25,000
Cancellation of shares	(18,967)	–
Issue of new shares under share split	8,477	–
Issued for cash	112,850	–
On issue at the end of year	127,360	25,000

- Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings.
- In the event of the winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Reserves

Equity remuneration reserve

The equity remuneration reserve represents the value of performance rights issued under the Company's long term incentive plan. This reserve will be reversed against share capital when the underlying shares vest with the employee.

The equity remuneration reserve also includes the share based payment to the CEO of 1% of the Company's issued shares upon/listing.

In thousands of AUD	The Company 2007	2006
Dividends		
Dividend franking account		
30% franking credits available to shareholders of RR Australia Limited for subsequent financial years	780	17,824

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

(a) franking credits that will arise from the payment of the current tax liabilities

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end

(c) franking credits that the entity may be prevented from distributing in subsequent years; and

(d) franking credits quarantined on listing. Prior to listing, the Company, an Australia resident entity was 100% held by non-residents. As the shareholding of non-residents fell below 95% on listing, the balance of the franking account at the listing date was quarantined.

After the balance sheet date, the following dividend was proposed by the directors.

	Cents per share	Total amount	Franked/unfranked	Date of payment
Final ordinary	0.97	1,235,392	Franked	25 July 2007

The financial effect of this dividend has not yet been brought to account in the financial statements for the year ended 31 March 2007 and will be recognised in subsequent financial reports. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce franking credits $529,454 (2006: $nil).

19. Financial instruments

Exposure to credit and interest rate arises in the normal course of the Company's and the consolidated entity's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(b) Fair values

The carrying value of financial assets and liabilities approximate their fair values.

(c) Interest rate risk

Effective interest rates and repricing analysis

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instruments' value will fluctuate as a result of changes in market interest rates and the effective average interest rate for classes of financial for assets and liabilities are as follows:

Consolidated

In thousands of AUD	Note	2007 Effective interest rate	2007 Total	2007 0–12 Months	2007 1–5 Years	2007 More than 5 years	2006 Effective interest rate	2006 Total	2006 0–12 Months	2006 1–5 Years	2006 More than 5 years
Cash and cash equivalents	8	5.79%	6,982	6,982	–	–	5.05%	4,753	4,753	–	–
Trade and other receivables			3,967	3,967	–	–		7,723	7,723	–	–
Finance lease receivable		45.35%	15,994	5,593	10,401	–	46.08%	9,118	3,842	5,276	–
			26,943	16,542	10,401	–		21,594	16,318	5,276	–
Bank Loan	15	7.67%	8,000	–	8,000	–	7.94%	7,000	–	7,000	–
Unsecured loan from Thorn Finance Limited	15		–	–	–	–	7.39%	37,543	–	37,543	–
Trade and other payables			14,849	14,849	–	–		14,443	14,443	–	–
Unsecured non interest bearing loan from Thorn International Holdings Limited			–	–	–	–		6,000	6,000	–	–
			22,849	14,849	8,000	–		64,986	20,443	44,543	–

The Company

In thousands of AUD	Note	2007 Effective Interest Rate	2007 Total	2007 0–12 Months	2007 1–5 Years	2007 More Than 5 Years	2006 Effective interest rate	2006 Total	2006 0–12 months	2006 1–5 years	2006 More than 5 years
Trade And Other Payables			–	–	–	–		7,145	7,145	–	–
Unsecured non interest bearing loan from Thorn International Holdings Limited			–	–	–	–		6,000	6,000	–	–

In accordance with AASB 132, the effective interest rate on the finance lease receivable held in respect of Rent Try Buy contracts has been calculated at 45.35% in 2007 (2006: 46.08 %). However, the directors do not consider this rate to be an appropriate measure of the pure effective interest rate for finance leases. The finance lease receivable represents amounts receivable in respect of a proposition which contains a bundled package of benefits that are not typically associated with finance leases and that cannot be separated with a reasonable degree of accuracy. These benefits include free delivery, free installation, free maintenance and repair and free equipment collection.

20. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2007 was based on profit attributable to ordinary shareholders of $6,542,000 (2006: $3,541,000) and a weighted average number of ordinary shares during the year ended 31 March 2007 of 55,567,781 (2006: 25,000,012).

Diluted earnings per share

The calculation of diluted earnings per share at 31 March 2007 was based on profit attributable to ordinary shareholders of $6,542,000 (2006: $3,541,000) and a weighted average number of ordinary shares during the year ended 31 March 2007 of 56,239,699 (2006: 25,000,012), which includes performance rights granted.

	2007	2006
Profit attributable to ordinary shareholders (basic)		
In thousands of AUD		
Profit attributable to ordinary shareholders from continuing operations (basic and diluted)	6,542	3,541
Weighted average number of ordinary shares (basic)		
In thousands of shares		
Issued ordinary shares at 1 April	25,000	25,000
Effect of shares issued in December 2006	30,568	–
Weighted average number of ordinary shares at 31 March	55,568	25,000
Weighted average number of ordinary shares (diluted)		
In thousands of shares		
Issued ordinary shares at 1 April	25,000	25,000
Effect of shares issued in December 2006	30,568	–
Effect of performance rights granted in December 2006	672	–
Weighted average number of ordinary shares (diluted) at 31 March	56,240	25,000
Earning per share for continuing operations		
Basic earnings per share		
In cents		
From continuing operations	11.77	14.16
Diluted earnings per share		
In cents		
From continuing operations	11.64	14.16
Alternative earnings per share		
Basic earnings per share from continuing operations (in cents), based on total shares on issue at balance date 127,360,000	5.14	
Diluted earnings per share from continuing operations (in cents), based on total shares (including the effect of performance rights) at balance date of 129,460,000	5.05	

Due to a major capital restructure on listing the alternative denominator is considered to provide more meaningful earnings per share information.

21. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	2007	2006	2007	2006
Less than one year	5,243	5,052	–	–
Between one and five years	6,737	5,305	–	–
	11,980	10,357	–	–

The consolidated entity leases all the store premises, and the corporate office under operating leases. The leases typically run for a period of 3 years, with an option to renew the lease after that date. Most of the lease payments are increased every year to reflect market rentals. None of the leases include contingent rentals.

The consolidated entity leases vehicles under operating leases. The lease term for these vehicles normally runs for a period of 4 years. The lease payments are set at the commencement of the lease term for the term of the lease. None of the leases include contingent rentals.

Leases as lessor

The consolidated entity leases out its rental assets under operating leases. The future minimum lease payments under non-cancellable operating leases are as follows:

	Consolidated		The Company	
In thousands of AUD	2007	2006	2007	2006
Less than one year	26,562	25,492	–	–
Between one and five years	4,640	4,631	–	–
	31,202	30,123	–	–

22. Consolidated entities

	Country of Incorporation	Ownership interest 2007	2006
Parent entity			
RR Australia Limited	Australia		
Subsidiaries			
Thorn Australia Pty Ltd	Australia	100%	100%
Eclipse Retail Rental Pty Ltd	Australia (1)	100%	100%
Thorn Australia Superannuation Plan Pty Ltd	Australia (1)	–	100%
Thorn Direct Credit Pty Ltd	Australia (2)	–	100%

(1) Controlled entity of Thorn Australia Pty Ltd and dormant

(2) Dormant

The shares in Thorn Superannuation Plan Pty Ltd were transferred to Thorn International Holdings Limited on 23 August 2006. The shares in Thorn Direct Credit Pty Ltd were transferred to Thorn International Holdings Limited on 23 August 2006. Both entities were dormant at the time of transfer.

Notes to the consolidated financial statements

For the year ended 31 March 2007

23. Contingencies

The industry in which the Company operates is highly regulated. Documentation, marketing and sales activities (both written and verbal) must comply with strict rules provided in the Uniform Consumer Credit Code and other legislation such as the Fair Trading and door to door sales legislation. Breach of these rules can result in fines or civil penalties or damages or compensation or some combination of these.

The Company has electrical safety testing and tagging obligations under the Australian Standard AS3760 and relevant state and territory based legislation. The Company is compliant with all its requirements and obligations. In one jurisdiction, testing and tagging is to be conducted on domestic hire equipment every six months during the hire period. The Company has been in consultation with the relevant government body and continues to consult with them to seek amendment to the legislation to bring the legislation into line with AS3760. The Company believes that the legislation is likely to change to conform to AS3760. Thorn International Holdings Limited has agreed to indemnify the cost to the Company of conducting testing and tagging on domestic hire equipment every six months during the hire period until the Company is no longer required to conduct that testing. The indemnity is capped at A$5 million and continues for a period of up to six years.

The Company has no reason to believe that this matter is likely to result in a material effect on the profitability of the Company and no provision exists for any potential exposure in connection with this matter.

The Company is aware (via the "mystery shop" process, where a person presents as a customer but is not a real customer) that some verbal statements may have been made to some customers inaccurately describing the customer's rights in relation to the acquisition of Similar Products to those rented under its Rent Try Buy contracts. Under the Consumer Credit Code, the amount at risk in relation to any affected contract is part of any deemed "interest" payable under that contract and/or any penalties which could be imposed. No customer complaints have been received in this regard.

The Company has no reason to believe that this matter is likely to result in a material effect on the profitability of the Company and no provision exists for any potential exposure in connection with this matter.

24. Deed of cross guarantee

RR Australia Limited and the controlled entity Thorn Australia Pty Limited entered into a Deed of Cross Guarantee on 20 March 1997. Eclipse Retail Rental Pty Limited was also added by an Assumption Deed to the Deed of Cross Guarantee on 26 March 1999. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

25. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
In thousands of AUD	2007	2006	2007	2006
Cash flows from operating activities				
Profit for the period	6,542	3,541	–	–
Adjustments for:				
Depreciation	1,879	2,199	–	–
Equity settled remuneration	828	–	828	–
Net book value of property, plant and equipment disposed.	322	–	–	–
Operating profit before changes in working capital and provisions	9,571	5,740	828	–
Decrease in rental assets	2,438	836	–	–
Increase in trade and other receivables	(6,962)	(4,176)	(2,137)	–
Decrease in deferred tax assets	523	383	–	–
Increase in income tax liability	1,375	1,145	1,375	–
Increase in trade and other payables	315	594	–	–
Decrease in provisions and employee benefits	(1,444)	(152)	–	–
	5,816	4,370	66	–
Net cash from operating activities	5,816	4,370	66	–

26. Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period, and unless otherwise indicated, were key management personnel for the entire period:

Non-Executive Directors

Bernard Carrasco (appointed 3 November 2006)
David Carter (appointed 3 November 2006)
Laurence Cooklin (appointed 3 November 2006)
Gordon Howlett

Executive Director
John Hughes (appointed 30 August 2006)

Executives

Peter Eaton
Peter Krideras
James Marshall
Ken Wolfendale
Tamora Wells (resigned 12 March 2007)
Derrick Hubble (resigned 31 October 2006)

Key management personnel remuneration

In AUD	Consolidated 2007	2006	The Company 2007	2006
Short-term employee benefits	1,918,000	1,642,000	856,000	696,000
Other long-term benefits	–	1,521,000	–	1,131,000
Post-employment benefits	100,000	98,000	39,000	37,000
Termination Benefits	332,000	1,278,000	–	1,278,000
Share based payments	828,000	–	828,000	–
	3,178,000	4,539,000	1,723,000	3,142,000

Information regarding individual directors' and executives' remuneration disclosures is provided in the Remuneration Report on pages 19 and 20.

Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Consolidated entity in the financial year. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

In thousands of AUD	Transaction	Note	Transactions value year end 31 March 2007	2006	Balance outstanding as at 31 March 2007	2006
Laurence Cooklin – Thorn Finance Limited	Interest bearing loan	(i)	1,997,000	2,768,000	–	37,543,000
Gordon Howlett – Thorn Rentals New Zealand Limited	Payment of services	(ii)	–	190,000	–	285,000

(i) Thorn Finance Limited, a company wholly owned by Carmelite Capital Limited, provided an interest bearing loan to Thorn Australia Pty Limited. This loan was repaid upon listing.

(ii) Thorn Rentals New Zealand Limited, a company owned by Gordon Howlett, paid $285,000 in 2007 to Thorn Australia Pty Limited for services provided in 2006.

Prior to listing, RR Australia Limited, Thorn Finance Limited and Thorn Rentals New Zealand Limited were related entities as part of the Carmelite Capital wholly owned group.

Post listing, RR Australia Limited, Thorn Finance Limited and Thorn Rentals New Zealand Limited are director related entities.

Movements in shares

The movement during the reporting period in the number of ordinary shares in RR Australia Limited held, directly, indirectly, or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 April 2006	Purchases	Received upon listing	Sales	Held at 31 March 2007
Bernard Carrasco	–	50,000	–	–	50,000
David Carter	–	200,000	–	–	200,000
Laurence Cooklin	–	50,000	–	–	50,000
Gordon Howlett	–	70,000	–	10,000	60,000
John Hughes	–	400,000	1,273,000	–	1,673,000
Peter Eaton	–	20,000	–	–	20,000
Peter Krideras	–	50,000	–	–	50,000
Ken Wolfendale	–	4,000	–	–	4,000

Other transactions with key management personnel

Apart from the details disclosed in this note and the Remuneration Report on page 17, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous year and there were no material contracts involving directors' interest at year end.

Non-key management personnel disclosures

Ultimate parent company

RR Australia limited is the ultimate Australian parent entity. The ultimate parent entity prior to listing was Carmelite Capital Ltd, a company incorporated in the United Kingdom.

RR Australia Limited repaid a non interest bearing loan of $22,908,281 to Thorn International Holdings Ltd, a subsidiary of Carmelite Capital Ltd during the period. Post listing, Thorn International Holdings Ltd retained 10% of the issued shares in RR Australia Limited.

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing. During the financial year ended 31 March 2007, such loans to subsidiaries totalled $42,865,000 (2006: $32,145,000).

Subsidiaries within the consolidated group are part of a tax consolidated group. The head entity in the tax consolidated group is RR Australia Limited. The members of the tax consolidated group have entered into a tax funding agreement which sets out funding obligations in respect of tax amounts. Tax balances have been transferred through intercompany accounts at year end pursuant to the tax funding agreement.

Directors' declaration

For the year ended 31 March 2007

1 In the opinion of the directors of RR Australia Limited (the Company):

(a) the financial statements and notes and the remuneration disclosures that are contained in sections 4.4.1 and 4.4.2 of the Remuneration Report in the Directors' report, set out on pages 9 to 20, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 March 2007 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a);

(c) the remuneration disclosures that are contained in sections 4.4.1 and 4.4.2 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 March 2007.

Signed in accordance with a resolution of the directors:

Bernard Carrasco	John Hughes
Chairman	*Managing Director*

Dated at Sydney

29 May 2007

Independent Auditor's report

For the year ended 31 March 2007

Independent auditor's report to the members of RR Australia Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of RR Australia Limited (the Company),

which comprises the balance sheets as at 31 March 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 26 and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Consolidated Entity, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of RR Australia Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 March 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in sections 4.4.1 and 4.4.2 of the Remuneration Report in the Directors' report comply with Australia Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Nicola Davis
Partner

Additional information

For the year ended 31 March 2007

Shareholding

(a) Distribution of shareholders

Category (size of holding)	Number of ordinary
1 to 1,000	43
1,001 to 5,000	251
5,001 to 10,000	492
10,001 to 100,000	785
100,001 and over	58
	1629

(b) The number of shareholders in less than marketable parcels is nil

(c) The names of the substantial shareholders listed in the company's register as at 31 March 2007 are:

Shareholder	Number of ordinary
JP Morgan Nominees Australia	14,519,808
National Nominees Limited	14,104,892
RBC Dexia Investor Services Australia Nominees Pty Limited	13,243,690
Thorn International Holdings Limited	12,736,000
Cogent Nominees Pty Limited	7,921,242

(d) Voting Rights

The company only has ordinary shares on issue.

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

Additional information

For the year ended 31 March 2007

(e) 20 largest shareholders - ordinary shares

	Name	Number of ordinary fully paid shares held	% Held of issued ordinary capital
1.	JP Morgan Nominees Australia Limited	14,519,808	11.40
2.	National Nominees Limited	14,104,892	11.07
3.	RBC Dexia Investor Services Australia Nominees Pty Limited	13,243,690	10.40
4.	Thorn International Holdings Limited	12,736,000	10.00
5.	Cogent Nominees Pty Limited	7,921,242	6.22
6.	HSBC Custody Nominees (Australia) Limited	5,313,753	4.17
7.	ANZ Nominees Limited	4,455,180	3.50
8.	Seymour Group Pty Ltd	3,000,000	2.36
9.	UBS Nominees Pty Ltd	2,994,200	2.35
10.	RBC Dexia Investor Services Australia Nominees Pty Limited	2,950,148	2.32
11.	RBC Dexia Investor Services Australia Nominees Pty Limited	2,285,645	1.79
12.	HSBC Custody Nominees (Australia) Limited	1,885,596	1.48
13.	INVIA Custodian Pty Limited	1,365,000	1.07
14.	Mr John Hughes	1,273,600	1.00
15.	TDM Asset Management Pty Ltd	900,000	0.71
16.	Bond Street Custodians Limited	614,000	0.48
17.	INVIA Custodian Pty Limited	585,000	0.46
18.	Shorebrook Pty Ltd	500,000	0.39
19.	Citicorp Nominees Pty Limited	445,000	0.35
20.	Bond Street Custodians Limited	400,000	0.31

Corporate directory

Directors

Bernard Carrasco – Chairman
John Hughes – Managing Director
David Carter – Non-Executive Director
Paul Lahiff – Non-Executive Director
Peter Henley – Non-Executive Director

Auditor to RR Australia Limited

KPMG

10 Shelley Street
Sydney NSW 2000

Company Secretary

Peter Eaton

Registered office

RR Australia Limited

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Registry

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