

THINKSMART LIMITED

**FINANCIAL REPORT
FINANCIAL YEAR ENDED**

31 DECEMBER 2006

THINKSMART LIMITED
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THINKSMART LIMITED DIRECTORS' REPORT

The Directors of ThinkSmart Limited ("the company") submit herewith the annual financial report of the company for the financial year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the company during or since the end of the financial year are:

S Penglis

Chairman, legal practitioner, aged 46, joined the board on 1 July 2000.

N R Montarello

Managing Director, aged 46, joined the board on 7 April 2000.

D Griffiths

Non Executive Director, aged 56, is an economist who joined the board on 28 November 2000.

C McDonald

Non Executive Director, aged 43, is a corporate analyst who joined the board on 22 July 2003. Mr McDonald resigned from the board on 11 April 2007.

P Manseli

Non Executive Director, aged 60, is a legal practitioner, joined the board on 12 April 2007.

PRINCIPAL ACTIVITIES

The company's principal activity in the course of the financial year was acting as holding company of the ThinkSmart group, which arranges finance for the renting of equipment in Australia and Europe.

CHANGES IN STATE OF AFFAIRS

During the financial year there were no significant changes in the state of affairs of the company other than that referred to in the financial statements or notes thereto. Refer to note 30 for details of acquisition of RentSmart Limited during the period.

REVIEW OF OPERATIONS

The after tax net profit of the consolidated entity, being ThinkSmart Limited and its controlled entities (the "Group" or "consolidated entity"), for the year was \$126,183 (2005: \$209,844).

The period has seen the Group meet the conditions necessary to wholly acquire the UK business from its joint venture partner, Halifax Bank of Scotland ("HBOS"). The Group continues to consolidate its position in Australia, UK, Spain and France with post-rental revenue streams ("inertia") now starting to lift European profitability. France remains a low volume start-up while opportunities in the US and other European territories are currently being explored.

SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

FUTURE DEVELOPMENTS

The company is preparing a prospectus in preparation for listing on the Australian Stock Exchange in 2007.

THINKSMART LIMITED
DIRECTORS' REPORT

DIVIDENDS

No dividends have been declared or paid in respect of the current or prior financial year.

SHARE OPTIONS

During and since the end of the financial year an aggregate 1,700,000 share options were granted to the Managing Director pursuant to the employment agreement:

| Directors and Executives | Number of options granted | Issuing entity | Number of ordinary shares under option |
|---------------------------------|----------------------------------|-----------------------|---|
| Ned Montarello | 1,700,000 | ThinkSmart Limited | 1,700,000 |

Details of unissued shares under option as at the date of this report are:

| Issuing entity | Number of shares under option | Classes of shares | Exercise price of options | Expiry date of options |
|-----------------------|--------------------------------------|--------------------------|----------------------------------|-------------------------------|
| Thinksmart Limited | 210,000 | Ordinary | \$1.75 | 31-Dec-08 |
| Thinksmart Limited | 350,000 | Ordinary | \$2.50 | 31-Dec-10 |
| Thinksmart Limited | 1,000,000 | Ordinary | \$4.50 | 27-Aug-08 |
| Thinksmart Limited | 350,000 | Ordinary | \$5.50 | 27-Aug-09 |
| Thinksmart Limited | 350,000 | Ordinary | \$6.50 | 27-Aug-10 |

During the year 1,000,000 options over ordinary shares were exercised at \$1.75 and 912,577 options were exercised at \$1.50.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included in page 5 of the financial report.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred by such an officer or auditor.

THINKSMART LIMITED
DIRECTORS' REPORT


DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings held during the financial year. During the financial year 8 board meetings were held.

| | Meetings Held | Meetings Attended |
|--------------|------------------|----------------------|
| S Penglis | 8 | 8 |
| N Montarello | 8 | 8 |
| D Griffiths | 8 | 8 |
| C McDonald | 8 | 8 |

Signed in accordance with a resolution of the directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors



S Penglis
Director
Perth, 14 April 2007

Deloitte

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The Board of Directors
ThinkSmart Limited
Level 1, The West Centre
1260 Hay Street
West Perth WA 6005

14 April 2007

Dear Board Members

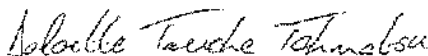
ThinkSmart Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of ThinkSmart Limited.

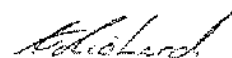
As lead audit partner for the audit of the financial statements of ThinkSmart Limited for the financial year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A T Richards
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

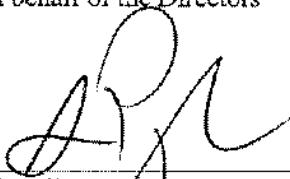
THINKSMART LIMITED
DIRECTORS' DECLARATION

The directors declare that:

- a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to repay its debts as and when they become due and payable; and
- b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



S Penglis
Director

Perth, 14 April 2007

THINKSMART LIMITED
INCOME STATEMENT

Income Statement
For the Financial Year Ended 31 December 2006

| | Notes | Consolidated | | Company | |
|---------------------------------------|-------|----------------|----------------|--------------------|--------------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue | 5(a) | 16,456,281 | 11,909,784 | - | - |
| Employee benefits expense | 5(b) | (4,946,464) | (4,809,162) | - | - |
| Sales and marketing costs | | (4,618,734) | (3,002,300) | - | - |
| Depreciation and amortisation expense | 5(c) | (449,235) | (311,713) | - | - |
| Occupancy costs | | (350,260) | (316,880) | - | - |
| Insurance and extended warranty costs | | (667,914) | (742,060) | - | - |
| Finance costs | 5(d) | (72,770) | (58,662) | - | - |
| Communication costs | | (203,902) | (195,555) | - | - |
| Doubtful and bad debts | | (105,386) | (139,033) | - | - |
| Legal and Consulting costs | | (194,549) | (268,776) | - | - |
| Credit bureau costs | | (226,702) | (169,221) | - | - |
| Impairment of intercompany receivable | 5(e) | - | - | (1,600,496) | (1,230,648) |
| Corporate development costs | | (1,545,402) | (956,465) | - | - |
| Other expenses | 5(f) | (2,257,519) | (560,121) | (37,434) | - |
| Profit/(Loss) Before Tax | | 817,444 | 379,836 | (1,637,930) | (1,230,648) |
| Income tax expense | 6 | (691,261) | (169,992) | - | - |
| Profit/(Loss) for the Year | | 126,183 | 209,844 | (1,637,930) | (1,230,648) |
| Attributable to: | | | | | |
| Equity holders of the parent | | 37,449 | 209,844 | | |
| Minority interest | | 88,734 | - | | |
| | | <u>126,183</u> | <u>209,844</u> | | |
| Earnings per share | | | | | |
| | 32 | | | | |
| Basic (cents per share) | | \$0.01 | \$0.01 | | |
| Diluted (cents per share) | | \$0.01 | \$0.01 | | |

The attached notes form an integral part of this Income Statement

THINKSMART LIMITED
BALANCE SHEET

Balance Sheet
As At 31 December 2006

| | Notes | Consolidated | | Company | |
|---|-------|-------------------|------------------|------------------|------------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Current Assets | | | | | |
| Cash and cash equivalents | | 2,756,194 | 698,021 | - | - |
| Trade and other receivables | 7 | 4,797,035 | 401,706 | - | - |
| Inventories | 8 | 27,185 | 97,723 | - | - |
| Other | 9 | 576,483 | 117,195 | - | - |
| Total Current Assets | | 8,156,897 | 1,314,645 | - | - |
| Non-Current Assets | | | | | |
| Plant and equipment | 10 | 1,322,055 | 538,475 | - | - |
| Other financial assets | 11 | - | - | 3,961,658 | 3,064,359 |
| Intangibles | 12 | 7,082,196 | 465,315 | - | - |
| Goodwill | 13 | 2,052,610 | - | - | - |
| Deferred tax assets | 6 | 1,218,226 | 734,327 | - | - |
| Total Non-Current Assets | | 11,675,087 | 1,738,117 | 3,961,658 | 3,064,359 |
| Total Assets | | 19,831,984 | 3,052,762 | 3,961,658 | 3,064,359 |
| Current Liabilities | | | | | |
| Trade and other payables | 15 | 13,848,956 | 1,592,222 | 11 | 11 |
| Borrowings | 16 | 797,714 | 429,401 | - | - |
| Provisions | 17 | 409,681 | 278,075 | - | - |
| Total Current Liabilities | | 15,056,351 | 2,299,698 | 11 | 11 |
| Non-Current Liabilities | | | | | |
| Other | 18 | 171,668 | 178,639 | - | - |
| Borrowings | 19 | 2,728,991 | 257,734 | - | - |
| Deferred tax liability | 6 | 2,051,170 | - | - | - |
| Total Non-Current Liabilities | | 4,951,829 | 436,373 | - | - |
| Total Liabilities | | 20,008,180 | 2,736,071 | 11 | 11 |
| Net (Liabilities)/Assets | | (176,196) | 316,691 | 3,961,647 | 3,064,348 |
| Equity/(Deficiency) | | | | | |
| Issued Capital | 20 | 9,842,393 | 6,723,526 | 9,842,393 | 6,723,526 |
| Reserves | 21 | (811,485) | - | (583,638) | - |
| Accumulated losses | | (9,207,104) | (6,406,835) | (5,297,108) | (3,659,178) |
| | | (176,196) | 316,691 | 3,961,647 | 3,064,348 |
| Equity attributable to equity holders of the parent | | (264,930) | 316,691 | 3,961,647 | 3,064,348 |
| Minority interest | | 88,734 | - | - | - |
| | | (176,196) | 316,691 | 3,961,647 | 3,064,348 |

The attached notes form an integral part of this Balance Sheet

Statement of Changes in Equity for the financial year ended 31 December 2006

| Consolidated | Fully paid ordinary shares \$ | Equity settled employee benefits reserve \$ | Foreign currency translation reserve \$ | Option buy- back reserve \$ | Accumulated Losses \$ | Attributable to equity holders of the parent \$ | Minority interest \$ | Total \$ |
|--|--|--|---|--------------------------------------|-----------------------------|--|----------------------------|-------------|
| Balance at 1 January 2005 | 6,723,526 | - | - | - | (6,616,679) | 106,847 | - | 106,847 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | - | - |
| Net income recognised directly in equity | - | - | - | - | (6,616,679) | - | - | - |
| Profit for the period | - | - | - | - | 209,844 | 209,844 | - | 209,844 |
| Total recognised income and expense | - | - | - | - | 209,844 | 209,844 | - | 209,844 |
| Recognition of share-based payments | - | - | - | - | - | - | - | - |
| Balance at 31 December 2005 | 6,723,526 | - | - | - | (6,406,835) | 316,691 | - | 316,691 |
| Balance at 1 January 2006 | 6,723,526 | - | - | - | (6,406,835) | 316,691 | - | 316,691 |
| Exchange differences arising on translation of foreign operations | - | - | (227,847) | - | - | (227,847) | - | (227,847) |
| Net income recognised directly in equity | - | - | (227,847) | - | - | (227,847) | - | (227,847) |
| Retained earnings recognised on acquisition of associate | - | - | - | - | (2,926,452) | (2,926,452) | - | (2,926,452) |
| Profit for the period | - | - | - | - | 126,183 | 37,449 | 88,734 | 126,183 |
| Total recognised income and expense | - | - | - | - | (2,800,269) | (2,889,003) | 88,734 | (2,800,269) |
| Recognition of share-based payments | - | 37,434 | - | - | - | 37,434 | - | 37,434 |
| Issue of shares under share option plan | 3,118,867 | - | - | - | - | 3,118,867 | - | 3,118,867 |
| Option buy-back | - | - | - | (621,072) | - | (621,072) | - | (621,072) |
| Balance at 31 December 2006 | 9,842,393 | 37,434 | (227,847) | (621,072) | (9,207,104) | (264,930) | 88,734 | (176,196) |

The attached notes form an integral part of this Statement of Changes in Equity.

**Statement of changes in equity
for the financial year ended 31 December 2006**

| Company | Fully paid ordinary shares \$ | Equity settled employee benefits reserve \$ | Option buy- back reserve \$ | Accumulated Losses \$ | Total \$ |
|---|--|--|-----------------------------------|-----------------------------|-------------|
| Balance at 1 January 2005 | 6,723,526 | - | - | (2,428,530) | 4,294,996 |
| Profit for the period | - | - | - | (1,230,648) | (1,230,648) |
| Total recognised income and expense | - | - | - | (1,230,648) | (1,230,648) |
| Recognition of share-based payments | - | - | - | - | - |
| Balance at 31 December 2005 | 6,723,526 | - | - | (3,659,178) | 3,064,348 |
| Balance at 1 January 2006 | 6,723,526 | - | - | (3,659,178) | 3,064,348 |
| Profit for the period | - | - | - | (1,637,930) | (1,637,930) |
| Total recognised income and expense | - | - | - | (1,637,930) | (1,637,930) |
| Recognition of share-based payments | - | 37,434 | - | - | 37,434 |
| Issue of shares under share option plan | 3,118,867 | - | - | - | 3,118,867 |
| Option buy-back | - | - | (621,072) | - | (621,072) |
| Balance at 31 December 2006 | 9,842,393 | 37,434 | (621,072) | (5,297,108) | 3,961,647 |

The attached notes form an integral part of this Statement of Changes in Equity.

Cash Flow Statement
For the Financial Year Ended 31 December 2006

| | Notes | Consolidated | | Company | |
|--|-------|--------------|--------------|------------|------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers | | 15,601,197 | 12,149,252 | - | - |
| Payments to suppliers and employees | | (15,394,758) | (11,086,521) | - | - |
| Interest received | | 111,110 | 22,814 | - | - |
| Interest and other costs of finance paid | | (170,583) | (57,366) | - | - |
| Net cash provided by operating activities | 22(b) | 146,966 | 1,028,179 | - | - |
| Cash Flows from Investing Activities | | | | | |
| Payments for plant and equipment | | (567,237) | (199,438) | - | - |
| Bank overdraft acquired | | (755,816) | - | - | - |
| Proceeds from sale of plant and equipment | | - | 182 | - | - |
| Buy back options held over the parent entity | | (621,072) | - | - | - |
| Net cash used in investing activities | | (1,967,651) | (199,256) | - | - |
| Cash Flows from Financing Activities | | | | | |
| Hire purchase and lease finance repaid | | (18,626) | - | - | - |
| Proceeds from issue of shares | | 3,118,867 | - | - | - |
| Proceeds / (Repayment) of borrowings | | 22,801 | (360,183) | - | - |
| Net cash used in financing activities | | 3,123,042 | (360,183) | - | - |
| Net increase in cash and cash equivalents | | 1,302,357 | 468,740 | - | - |
| Cash and cash equivalents at beginning of the financial year | | 698,021 | 229,281 | - | - |
| Net Cash and cash equivalents at the end of the financial year | 22(a) | 2,000,378 | 698,021 | - | - |

The attached notes form an integral part of this Cash Flow Statement

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. General information

ThinkSmart Limited (the company) is a non-listed public company, incorporated in Australia and operating in Australia, United Kingdom, Spain and France.

ThinkSmart Limited's registered office and its principal place of business are as follows:

| | |
|---------------------|------------------------------|
| Registered office: | Principal place of business: |
| Level 1 | Level 1 |
| The West Centre | The West Centre |
| 1260 Hay Street | 1260 Hay Street |
| West Perth | West Perth |
| WA 6005 | WA 6005 |
| Tel: (08) 9463 7500 | Tel: (08) 9463 7500 |

2. Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- Investments classified as at fair value through profit and loss (AASB 2005-04 'Amendments to Australian Accounting Standards'); and
- Financial guarantee contracts (AASB 2005-09 'Amendments to Australian Accounting Standards').

The adoption of these new and revised Standards and Interpretations has also resulted in a change to the Group's accounting policies in relation to business combinations involving entities under common control. Such business combinations were formerly within the scope of AASB 3 'Business Combinations', but are now scoped out of that Standard by AASB 2005-6 'Amendments to Australian Accounting Standards'.

The impact of these changes in accounting policies is discussed in detail later in this note.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

| | |
|---|---|
| AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue | Effective for annual reporting periods beginning on or after 1 January 2007 |
| AASB 8 "Operating Segments" | Effective for annual reporting periods beginning on or after 1 January 2009 |
| AASB 101 'Presentation of Financial Statements' – revised standard | Effective for annual reporting periods beginning on or after 1 January 2007 |
| Interpretation 7 'Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies' | Effective for annual reporting periods beginning on or after 1 March 2006 |
| Interpretation 8 'Scope of AASB 2' | Effective for annual reporting periods beginning on or after 1 May 2006 |
| Interpretation 9 'Reassessment of Embedded Derivatives' | Effective for annual reporting periods beginning on or after 1 June 2006 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2. Adoption of new and revised accounting standards (cont.)

| | |
|--|--|
| Interpretation 10 'Interim Financial Reporting and Impairment' | Effective for annual reporting periods beginning on or after 1 November 2006 |
| Interpretation 11 'AASB 2 – Group and Treasury Share Transactions' | Effective for annual reporting periods beginning on or after 1 March 2007 |
| Interpretation 12 'Service Concession Arrangements' | Effective for annual reporting periods on or after 1 January 2008 |

The directors are assessing what impact, if any, that the adoption of these Standards and Interpretations will have on the financial statements of the company or the Group in future periods. The issue of Interpretation 7, Interpretation 8 and Interpretation 9, Interpretation 11 and Interpretation 12 do not affect the Group's present policies and operations. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7, AASB 8 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company and the Group's financial instruments and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 January 2007.

Limitation of ability to designate financial assets and financial liabilities through profit or loss

The Australian Accounting Standards Board ('AASB') released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' by limiting the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss'.

Financial assets that can no longer be designated as 'at fair value through profit or loss' are now classified into either loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate, and measured at amortised cost or at fair value with changes in fair value recognised in equity, according to their classification. Financial liabilities that can no longer be designated as 'at fair value through profit or loss' are classified as 'other' financial liabilities and measured at amortised cost. Although ordinarily the designation of a financial asset as available-for-sale is made on initial recognition, the transitional provisions of the Standard allow such designation to be made on the date of de-designation.

The changes introduced by AASB 2005-4 have been applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 January 2005). This amendment has no effect on the financial statements of the Group for the current or prior reporting periods.

Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 January 2005).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2. Adoption of new and revised accounting standards (cont.)

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised less, where appropriate, cumulative amortisation.

Accounting for business combinations involving entities or businesses under common control

The AASB released AASB 2005-6 'Amendments to Australian Accounting Standards' in June 2006. AASB 2005-6 amends AASB 3 'Business Combinations' by removing business combinations involving entities or business under common control from its scope. The effect of the scope amendment is that there is no longer any explicit guidance under Accounting Standards as to how to account for these types of business combinations.

The amendment has no effect on the financial statements of the Group for the current or prior reporting periods. However, future transactions involving entities under common control will be affected.

3. Significant Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the Consolidated financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS'). The Parent Entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 132 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require disclosures to be presented by the Parent Entity where its separate financial statements are presented together with the Consolidated financial statements of the Consolidated Entity.

The financial statements were authorised for issue by the Directors on 14 April 2007.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

The following significant policies have been adopted in the preparation and presentation of the financial report:

a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved when the company has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those by other members of the Group. All intra-group balances, transactions, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority interests in excess of the minority's interest in the subsidiaries equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

b) Business Combinations

Acquisitions of subsidiaries and business are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of the exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs attributable to the business combination. The acquiree's identifiable assets liabilities and contingent liabilities that meet the conditions of recognition under AASB3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with AASB 5 'non-current assets held for sale and discontinued operations' which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. Any excess is measured in the profit and loss.

c) Going Concern

The company made a loss after tax for the year ended 31 December 2006 of \$1,637,930 (2005: loss \$1,230,648) and had no cash flow from operations. The consolidated entity made a profit after tax for the year ended 31 December 2006 of \$126,183 (2005: \$209,844) and generated cash flow from operations of \$146,966 (2005: \$1,028,179).

As at 31 December 2006 the company had net current liabilities of \$11 and total net assets of \$3,961,647. The consolidated entity had net current liabilities of \$6,899,454 and total net liabilities of \$176,196 respectively.

The net current liability position of the consolidated entity as at 31 December 2006 is predominantly due to the deferred consideration of \$7,746,121 payable to Halifax Bank of Scotland on or before 20 June 2007 to complete the purchase of its 50% share in RentSmart Limited (UK). This liability may be paid from

- i) the proceeds from additional share capital issued at the time of the proposed listing on the Australian Stock Exchange (ASX);
- ii) an indicative offer of alternate debt funding has been provided by ANZ in the event the ASX listing does not occur before 20 June 2007. These arrangements are subject to formal approval. Management expects that it will take an elapsed period of 4-6 weeks to secure this facility if required; and
- iii) securing additional funding through securitisation of the inertia income the company is entitled to as at 31 December 2006 both in Australia and the UK.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

The company is currently well advanced in its progress towards an ASX listing with a target date of June 2007 for the initial public offering. The offering is being underwritten by JP Morgan with a signed underwriting agreement expected to be completed by 9 May 2007. The company currently anticipates being in a position to raise approximately \$13 million in new capital.

The financial statements have been prepared on a going concern basis which contemplates the continuity of business and the realisation of assets and payment of liabilities in the normal course of business. The directors believe that the use of the going concern basis is appropriate having regard to the realisation of inertia revenue, currently disclosed as a contingent asset for reasons disclosed in note 30, and the ability of the Group to further raise capital or debt funds as required.

Should the company and the consolidated entity be unable to continue as going concerns, they may be required to realise assets and extinguish their liabilities other than the normal course of business and at amounts different to those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classifications of liabilities that may be necessary should the company and consolidated entity be unable to continue as a going concern.

d) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily converted to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

e) Plant and equipment

Acquisition of Assets

Items of plant and equipment acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

Depreciation

Depreciation is provided on plant and equipment. Depreciation is calculated on a reducing balance basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The following estimated useful lives are used in the calculation of depreciation:

| | |
|---|----------------|
| - Office furniture, fittings, equipment and computers | 2.5 to 5 years |
| - Leasehold improvements | the lease term |
| - Self-funded rental assets | 2.5 to 5 years |
| - Web sites | 2.5 years |
| - Motor vehicles | 5 years |
| - Computer equipment and software – leased | 2.5 to 5 years |

f) Leased assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and disclosed as plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the profit and loss.

g) Trade and other accounts payables

Trade payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

h) Investments

Investments in controlled entities are recorded at the lower of cost and recoverable amount. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at the lower of cost and recoverable amount.

i) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company. Other financial assets are classified into the following specified categories: financial assets at 'fair value through profit and loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Loans and Receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

j) Impairment of tangible and intangible assets

At each reporting date the group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

k) Intangible Assets and Distribution Network Contracts

Intellectual Property

Intangible assets "intellectual property" recorded at cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over 20 years.

Inertia Assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Intangible assets "inertia" and "distribution networks" acquired on the acquisition of RentSmart Limited (UK) represent the expected income streams from unexpired rental contracts in existence at 1 December 2006. The maximum term of unexpired contracts at 1 December 2006 is 4 years and the intangible asset is amortised over the expected income profile of this revenue stream. Intangible assets "distribution network" represents the value attributable to the retailer network from which rental contracts are originated. The intangible asset is amortised on a straight line basis until the expiry date of the current contract.

l) Government grants

Government grants are assistance by the Government in the form of transfer of resources to the company in return for past or future compliance with certain conditions to the operating activities of the company. Government grants are not recognised until there is reasonable assurance that the company will or has complied with the conditions attaching to them and the grants will be received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred are recognised as income of the period in which it becomes receivable.

m) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGU or CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). The impairment loss recognised for goodwill is recognised immediately in the profit or loss and is not reversed in the subsequent period.

On disposal of an operation within a CGU, the attributable goodwill is included in the determination of the profit or loss of disposal on the operation.

n) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits, which are expected to be settled within 12 months, are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits, which are not expected to be settled within 12 months, are measured at their present value of the estimated future cash flows to be made by the group.

Contributions to defined contribution superannuation plans are expensed when incurred.

o) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make use for sale.

p) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Funder Income

Commissions receivable from funders is recognised at the time finance approval is given, adjusted for an allowance for loans not expected to proceed to a contract. A component of the income where material is deferred and recognised in line with the services provided. As at 31 December 2006 this deferred revenue was not considered material.

Unguaranteed Residual Interest in Equipment

At the conclusion of the initial rental period the consolidated entity is entitled to acquire the equipment from the funders at a nominal value. The consolidated entity can immediately dispose of the equipment or continue to rent the asset to third parties.

- Ongoing rental income
Where the asset acquired from the funder is rented to third parties the income from that rental is brought to account when the control of the right to receive this income is attained and can be reliably measured, usually on a monthly basis. No ongoing rental income is brought to account in respect of the unexpired rental contracts.
- Sale income
Where the asset is sold the sale proceeds are brought to account at the time of the sale.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

q) Financial Instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

r) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and its wholly-owned Australian entities have elected not to form a tax consolidated Group.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

s) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

t) Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Entity operates ("the functional currency").

The Consolidated financial statements are presented in Australian dollars, which is ThinkSmart Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies and foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign Entity are treated as assets and liabilities of the foreign Entity and translated at exchange rates prevailing at the reporting date.

u) Share-based payment

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (cont.)

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

v) Segment reporting

The Group conducts rental finance operations in its subsidiaries across geographical segments in Australia and Europe.

w) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

x) Corporate Development costs

Corporate development costs are expenses as incurred in investing in new markets and primarily comprise of salaried costs, travel, consultancy and trademark protection.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements including those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Critical accounting judgements and key sources of estimation uncertainty (cont.)

- i) The factors used to determine the company provisions for employee entitlements.
- ii) Discount rate used in determining the present value of inertia cash flows acquired in the business combination.
- iii) The valuation of options issued by the company in the absence of a liquid market and volatility factors used in binomial pricing models.

Key sources of estimation uncertainty.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- i) Recoverability of intangible assets. The value of “inertia assets” has been made using the director’s best estimate of realisable value appropriately adjusted for risk. Market factors may affect the the final realised value as these assets are yet to be realised. The value of “distribution networks” and amortisation thereof is based on the current distribution contract terms.
- ii) Impairment of goodwill. Further detail regarding the goodwill arising from the business combination is provided in note 30.
- iii) Recoverability of receivable with subsidiary. Further detail on the accounting treatment is provided in note 11 (b)

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Notes | Consolidated | | Company | |
|--|-------|-------------------|-------------------|---------------|-------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 5. Profit | | | | | |
| Profit is arrived at after crediting/(charging) the following items: | | | | | |
| a) Revenue | | | | | |
| Funder income | | 11,995,152 | 8,117,062 | - | - |
| Income received on sale of equipment | | 1,683,405 | 1,930,640 | - | - |
| Rental income | | 2,110,149 | 1,762,372 | - | - |
| Other revenue | | 419,465 | 99,710 | - | - |
| Government grant | | 137,000 | - | - | - |
| Interest - related parties | | 111,110 | - | - | - |
| | | <u>16,456,281</u> | <u>11,909,784</u> | - | - |
| b) Employee benefits expense | | | | | |
| Payments to employees | | 3,619,250 | 3,426,679 | - | - |
| Payments to Directors of related entities | | 709,372 | 688,764 | - | - |
| Share based payments | | 37,434 | - | - | - |
| Provision for employee entitlements | | 580,408 | 693,719 | - | - |
| | | <u>4,946,464</u> | <u>4,809,162</u> | - | - |
| c) Depreciation and amortisation expense | | | | | |
| Depreciation of plant and equipment | | 267,799 | 261,282 | - | - |
| Amortisation of leasehold improvements | | 12,730 | 18,340 | - | - |
| Amortisation of distribution network | | 38,011 | - | - | - |
| Amortisation of inertia contracts | | 98,604 | - | - | - |
| Amortisation of intellectual property | | 32,091 | 32,091 | - | - |
| | | <u>449,235</u> | <u>311,713</u> | - | - |
| d) Finance costs | | | | | |
| Interest expense - other entities | | 4,898 | 2,148 | - | - |
| - related parties | | 32,728 | - | - | - |
| Finance charges | | 35,144 | 56,514 | - | - |
| | | <u>72,770</u> | <u>58,662</u> | - | - |
| e) Impairment of intercompany receivable | | | | | |
| Impairment of intercompany receivable | | - | - | (1,600,496) | (1,230,648) |
| f) Other Expenses | | | | | |
| Other expenses | | <u>2,257,519</u> | <u>560,121</u> | <u>37,434</u> | - |

Other expenses comprise of other administrative expenses including postage, travel and training. Included in 2006 costs was \$715,783 of fee-for-service charges incurred by Spain and France for the UK operations centre. RentSmart Limited (UK) was consolidated from its acquisition date on 1 December 2006 and only 1 months' fee-for-service cost was eliminated against the UK's fee-for-service revenue. The remaining fee-for-service revenue was brought to account within retained earnings on business combination. The remaining increase was due to a full year impact of France operations and higher costs to service higher revenue returns from Spain during 2006.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

6. Income Tax

| | Consolidated | | Company | |
|--|--------------|---------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| The major components of income tax expense for the year ended 31 December are: | | | | |
| <i>Current income tax</i> | | | | |
| Current income tax charge | 60,454 | - | - | - |
| <i>Deferred income tax</i> | | | | |
| Relating to origination and reversal of temporary differences | 630,807 | 169,992 | - | - |
| Income tax expense reported in income statement | 691,261 | 169,992 | - | - |

A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the applicable income tax rate is as follows:

| | Consolidated | | Company | |
|--|--------------|---------|-------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Accounting profit/(loss) before tax | 817,444 | 379,836 | (1,637,930) | (1,230,648) |
| At the statutory income tax rate of 30% | 245,234 | 113,951 | (491,379) | (369,194) |
| Non deductible expenses | 160,354 | 56,041 | 491,379 | 369,194 |
| Overseas tax losses not recognised | 59,004 | - | - | - |
| Adjustments to deferred tax balances in respect of prior periods | 226,669 | - | - | - |
| Income tax expense reported in the income statement | 691,261 | 169,992 | - | - |

Deferred tax asset

| | 31 December 2005 | Consolidated | | | 31 December 2006 |
|-----------------------|------------------|-------------------|-------------------|-----------|------------------|
| | | Charged to income | Charged to equity | Other | |
| Accruals | 13,350 | (13,350) | - | - | - |
| Tax losses | 444,426 | (403,230) | - | 1,081,753 | 1,122,949 |
| Employee entitlements | 83,423 | 19,806 | - | - | 103,229 |
| Other | 193,128 | (247,688) | - | 46,608 | (7,953) |
| Total | 734,327 | (644,462) | - | 1,128,361 | 1,218,226 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

6. Income Tax (cont.)

| Deferred tax liability | Consolidated | | | | 31 December 2006 |
|---------------------------|---------------------|----------------------|----------------------|------------------|---------------------|
| | 31 December 2005 | Charged to income | Charged to equity | Other | |
| Prepayments | - | 1,659 | - | - | 1,659 |
| Deals awaiting settlement | 12,215 | 1,414 | - | - | 13,629 |
| Intangible assets | - | (58,008) | - | 2,052,610 | 1,994,602 |
| Government grant | - | 41,280 | - | - | 41,280 |
| Total | 12,215 | (13,655) | - | 2,052,610 | 2,051,170 |

| Deferred tax asset | Consolidated | | | | 31 December 2005 |
|-----------------------|---------------------|----------------------|----------------------|----------|---------------------|
| | 31 December 2004 | Charged to income | Charged to equity | Other | |
| Accruals | 13,350 | - | - | - | 13,350 |
| Tax losses | 628,379 | (183,953) | - | - | 444,426 |
| Employee entitlements | 110,450 | (27,027) | - | - | 83,423 |
| Other | 152,140 | 53,203 | - | - | 205,343 |
| Total | 904,319 | (157,777) | - | - | 746,542 |

| Deferred tax liability | Consolidated | | | | 31 December 2005 |
|----------------------------------|---------------------|----------------------|----------------------|----------|---------------------|
| | 31 December 2004 | Charged to income | Charged to equity | Other | |
| Prepayments | - | - | - | - | - |
| Deals awaiting settlement | - | 12,215 | - | - | 12,215 |
| Inertia and distribution network | - | - | - | - | - |
| Government grant | - | - | - | - | - |
| Total | - | 12,215 | - | - | 12,215 |

As there is no deferred tax balances in the Company, no reconciliation has been presented.

Tax Consolidation

ThinkSmart Ltd and its 100% owned Australian resident subsidiaries have not formed a tax consolidated group as at 31 December 2006.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Consolidated | | Company | |
|---------------------------------------|------------------|----------------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 7. Trade and other receivables | | | | |
| Trade receivables (i) | 4,797,035 | 421,706 | - | - |
| Allowance for doubtful debts | - | (20,000) | - | - |
| | <u>4,797,035</u> | <u>401,706</u> | <u>-</u> | <u>-</u> |

(i) The average credit period on trade receivables is 30 days. No interest is charged on trade receivables.

| | Consolidated | | Company | |
|---------------------------|---------------|---------------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 8. Inventories | | | | |
| Promotional stock on hand | 27,185 | 81,390 | - | - |
| Rental asset inventory | - | 16,333 | - | - |
| | <u>27,185</u> | <u>97,723</u> | <u>-</u> | <u>-</u> |

| | Consolidated | | Company | |
|--------------------------------|----------------|----------------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 9. Other current assets | | | | |
| Prepayments | 528,572 | 73,998 | - | - |
| Deals awaiting settlement | 45,431 | 40,717 | - | - |
| Other | 2,480 | 2,480 | - | - |
| | <u>576,483</u> | <u>117,195</u> | <u>-</u> | <u>-</u> |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. Plant & Equipment

| | Plant & Equipment \$ | Leasehold improvements \$ | Self funded rentals \$ | Web Sites \$ | Lease equipment & software \$ | Software \$ | Total \$ |
|--|-------------------------|------------------------------|---------------------------|-----------------|----------------------------------|----------------|-------------|
| Gross Carrying Amount | | | | | | | |
| Balance at 1 January 2005 | 852,020 | 275,039 | 138,083 | 76,450 | 1,621,525 | 15,232 | 2,978,349 |
| Additions/(disposals) | 26,201 | - | 18,011 | - | 155,044 | - | 199,256 |
| Balance at 31 Dec 2005 | 878,221 | 275,039 | 156,094 | 76,450 | 1,776,569 | 15,232 | 3,177,605 |
| Acquisitions through business combinations | 204,040 | 227,933 | - | - | - | - | 431,973 |
| Net foreign currency translation differences | 28,064 | - | - | - | - | - | 28,064 |
| Additions/(disposals) | 12,314 | 17,515 | (6,136) | - | 77,785 | 467,126 | 568,604 |
| Balance at 31 Dec 2006 | 1,122,639 | 520,487 | 149,958 | 76,450 | 1,854,354 | 482,358 | 4,206,246 |
| Accumulated Depreciation | | | | | | | |
| Balance at 1 January 2005 | (679,164) | (226,272) | (89,241) | (64,603) | (1,286,219) | (15,064) | (2,359,508) |
| Depreciation expense | (52,350) | (18,340) | (22,112) | (4,738) | (182,082) | - | (279,622) |
| Balance at 31 December 2005 | (731,514) | (244,612) | (111,353) | (69,341) | (1,467,246) | (15,064) | (2,639,130) |
| Net foreign currency translation differences | 28,064 | 1,744 | - | - | - | - | 29,808 |
| (Additions)/disposals | - | - | 5,658 | - | - | - | 5,658 |
| Depreciation expense | (63,973) | (12,730) | (16,767) | (2,844) | (153,351) | (30,864) | (280,525) |
| Balance at 31 Dec 2006 | (767,423) | (255,598) | (122,462) | (72,185) | (1,620,597) | (45,928) | (2,884,193) |
| Net Book Value | | | | | | | |
| At 31 Dec 2005 | 146,707 | 30,427 | 44,741 | 7,109 | 309,323 | 168 | 538,475 |
| At 31 Dec 2006 | 355,216 | 264,889 | 27,498 | 4,265 | 233,757 | 436,430 | 1,322,055 |

ThinkSmart Limited the parent company holds no plant & equipment.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | | | Consolidated | | Company | |
|--|--------------------------|-------------|--------------|------|-------------|-------------|
| | | | 2006 | 2005 | 2006 | 2005 |
| | | | \$ | \$ | \$ | \$ |
| 11. Other Financial Assets | | | | | | |
| Interest in Subsidiaries | Country of Incorporation | % of Equity | | | | |
| RentSmart Unit Trust (ii) | Australia | 100% | - | - | 23,526 | 23,526 |
| RentSmart Pty Ltd | Australia | 100% | - | - | 12 | 12 |
| RentSmart Limited | UK | 50%(i) | - | - | - | - |
| SmartCheck Ltd | Australia | 100% | - | - | - | - |
| RentSmart Pty Ltd | New Zealand | 100% | - | - | - | - |
| RentSmart Pte Ltd | Singapore | 100% | - | - | - | - |
| ThinkSmart Europe Ltd | UK | 100% | - | - | - | - |
| ThinkSmart Financial Services Ltd | UK | 100% | - | - | - | - |
| SmartCheck Ltd | UK | 100% | - | - | - | - |
| ThinkSmart Finance Spain SL | Spain | 100% | - | - | - | - |
| SmartPlan Spain SL | Spain | 100% | - | - | - | - |
| Unsecured loans to controlled entities | | | - | - | 23,538 | 23,538 |
| Loan to RentSmart Unit Trust (ii) | | | - | - | 9,197,796 | 6,700,001 |
| Provision for diminution | | | - | - | (5,259,676) | (3,659,180) |
| | | | - | - | 3,961,658 | 3,064,359 |

(i) RentSmart Limited was fully controlled at 1 December 2006 pursuant to the Sale and Purchase Agreement dated 30 June 2006 ("SPA"). The SPA requires completion by 20 June 2007 at which time 100% of the ordinary shares will be owned by ThinkSmart Europe Limited after the financial completion of the purchase from Halifax Bank of Scotland (2005: 50% owned)

(ii) The financial statements of the RentSmart Unit Trust ("the Trust") shows a deficiency of net assets as at 31 December 2006 after allowing for the loan to the parent entity, ThinkSmart Limited. In assessing the recoverability of the loan receivable from the Trust the directors have had regard to the entitlement of the Trust to receive future rental and equipment sale income from unexpired contracts. The estimated value of unexpired contracts for the Trust at 31 December 2006 was \$4,669,343. This has been estimated by calculating the net present value of the after-tax cash flows of rental contracts in existence at 31 December 2006. The future income stream is conservatively assumed to have a value equivalent to the least profitable sales channel.

The receivable is payable on demand and currently attracts no interest.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Consolidated | | | |
|--|-------------------------------|--------------------------------|----------------------------|------------------|
| | Distribution network \$ | Intellectual Property \$ | Inertia Contracts \$ | Total \$ |
| 12. Intangible Assets | | | | |
| Gross carrying amount | | | | |
| Balance at 1 January 2005 | - | 641,816 | - | 641,816 |
| Movement | - | - | - | - |
| Balance at 1 January 2006 | - | 641,816 | - | 641,816 |
| Acquisitions through business combinations | 2,052,610 | - | 4,732,977 | 6,785,587 |
| Balance at 31 December 2006 | 2,052,610 | 641,816 | 4,732,977 | 7,427,403 |
| Accumulated amortisation and impairment | | | | |
| Balance at 1 January 2005 | - | (144,410) | - | (144,410) |
| Amortisation expense (i) | - | (32,091) | - | (32,091) |
| Balance at 1 January 2006 | - | (176,501) | - | (176,501) |
| Amortisation expense (i) | (38,011) | (32,091) | (98,604) | (168,706) |
| Balance at 31 December 2006 | (38,011) | (208,592) | (98,604) | (345,207) |
| Net book value | | | | |
| At 31 December 2005 | - | 465,315 | - | 465,315 |
| At 31 December 2006 | 2,014,599 | 433,224 | 4,634,373 | 7,082,196 |

(i) Amortisation expense is included in the line item 'depreciation and amortisation' expense in the income statement. The company did not hold any intangible assets during the current or comparative reporting period.

| | Consolidated | | Company | |
|--|------------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 13. Goodwill | | | | |
| Balance at beginning of financial year | - | - | - | - |
| Amount recognised from business combinations during the period (i) | 2,052,610 | - | - | - |
| Balance at end of financial year | 2,052,610 | - | - | - |

(i) Goodwill arising from the recognition of the deferred tax liability from intangible assets.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

14. Assets Pledged as Security

In accordance with the security arrangements of liabilities, as disclosed in notes 16 and 19 to the financial statements, effectively all non-current assets of the RentSmart Limited have been pledged as security. The consolidated entity does not hold title to the equipment under finance lease pledged under security.

| | Notes | Consolidated | | Company | |
|-------------------------------------|-------|-------------------|------------------|------------|------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 15. Trade and other payables | | | | | |
| Trade payables (i) | | 5,234,987 | 1,536,379 | - | - |
| Term loans | 19 | 790,123 | - | - | - |
| Other payables (ii) | | 7,746,121 | - | 11 | 11 |
| GST Payable | | 77,725 | 55,843 | - | - |
| | | <u>13,848,956</u> | <u>1,592,222</u> | <u>11</u> | <u>11</u> |

(i) Refer note 29 a)

(ii) Amount payable to Halifax Bank of Scotland on or before 20 June 2007 to complete the purchase of its 50% share in RentSmart Limited (UK). The consideration includes interest payable at 2% above the base lending rate as determined from time to time, compounded monthly, by HBOS from the acquisition date to 20 June 2007. In the event of late payment, interest shall accrue at an additional 3% compounded daily on the 2% margin above the base lending rate.

| | Consolidated | | Company | |
|--|----------------|----------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 16. Borrowings | | | | |
| Bank Overdraft (i) | 755,816 | - | - | - |
| Hire purchase and lease liabilities (ii) | 41,898 | 29,401 | - | - |
| Bank bill acceptance facility (iii) | - | 400,000 | - | - |
| | <u>797,714</u> | <u>429,401</u> | <u>-</u> | <u>-</u> |

(i) The £500,000 overdraft facility is redeemable on demand and has been negotiated on commercial terms at 2% above the base rate from Halifax Bank of Scotland. The loan is secured over the assets of RentSmart Limited.

(ii) The hire purchase and lease liabilities are secured by a charge over the respective assets (refer note 23).

(iii) The commercial bill was paid out during the period.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Consolidated | | Company | |
|-------------------------------|----------------|----------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 17. Current Provisions | | | | |
| Provision for tax | 60,454 | - | - | - |
| Employee entitlements | 349,227 | 278,075 | - | - |
| | <u>409,681</u> | <u>278,075</u> | <u>-</u> | <u>-</u> |

Accrued salaries and wages are included in the current payables balance (refer note 15).

| | Consolidated | | Company | |
|--------------------------------|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 18. Other – non current | | | | |
| Product Plan (i) | 171,668 | 178,639 | - | - |

(i) Premiums for insurance and warranty are funded in advance and remitted to the underwriter at each anniversary date.

| | Consolidated | | Company | |
|---|------------------|----------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 19 Borrowings | | | | |
| Commercial Bill (i) | - | 202,654 | - | - |
| Hire purchase and lease liabilities (iii) | 55,050 | 55,080 | - | - |
| Term loans (ii) | 2,673,941 | - | - | - |
| | <u>2,728,991</u> | <u>257,734</u> | <u>-</u> | <u>-</u> |

(i) The commercial bill was paid out in the period. The bill was secured over the assets of the RentSmart Unit Trust in accordance with a guarantee of subordination by ThinkSmart Limited. Principal repayments of \$100,000 each quarter prior to rolling over the balance for further 90 day terms.

(ii) The £1,400,000 fixed term loan is charged with interest in arrears at a margin of 2.5% over the Halifax Bank of Scotland base rate. The loan is secured over the assets of RentSmart Limited. The repayment terms are £100,000 at 30 September 2007, £200,000 at 31 December 2007, £300,000 at 31 March 2008, £400,000 at 30 June 2008 and £400,000 at 30 September 2008. The current payable on the term loan is disclosed in note 15.

(iii) The hire purchase and lease liabilities are secured by a charge over the respective assets (refer note 23).

| | Consolidated | | Company | |
|--|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 20. Issued Capital | | | | |
| (a) Issued and Paid up Capital | | | | |
| 22,245,913 Ordinary Shares fully paid (2005: 20,333,336) | 9,842,393 | 6,723,526 | 9,842,393 | 6,723,526 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| 20. Issued Capital (cont.) | Consolidated 2006 | | Company 2005\$ | |
|---|----------------------|-----------|-------------------|-----------|
| | Number | \$ | Number | \$ |
| <i>Fully Paid Ordinary Shares</i> | | | | |
| Balance at beginning of the financial year | 20,333,336 | 6,723,526 | 20,333,336 | 6,723,526 |
| Issue of new shares following exercise of options | 1,912,577 | 3,118,867 | - | - |
| Balance at end of the financial year | 22,245,913 | 9,842,393 | 20,333,336 | 6,723,526 |

(b) Share Options

(i) Rights Issue Options

600,000 Rights Issue options were exercisable at \$1.50 on or before 31 January 2006. 545,910 options were exercised during the period. The balance lapsed without being exercised.

(ii) Convertible Notes Options

466,667 Convertible Note options were exercisable at \$1.50 on or before 31 January 2006. 366,667 options were exercised during the period. The balance lapsed without being exercised.

(iii) Executive Service Contract Options

1,000,000 options were exercisable at \$1.75 at any time between 5 June 2006 and 5 August 2006. These options were exercised during 2006.

(iv) Halifax Bank of Scotland Option

During the year ThinkSmart purchased back from Halifax Bank of Scotland the option it held over 10% of the issued capital of the company for a consideration of \$621,072 at arms length.

(v) Employee Options

The following options were issued over ordinary fully paid shares:

- 210,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$1.75 between 1 January 2008 and 31 December 2008.
- 350,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$2.50 between 1 January 2008 and 31 December 2010.
- 1,000,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$4.50 between 28 August 2007 and 27 August 2008
- 350,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$5.50 between 28 August 2008 and 27 August 2009.
- 350,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$6.50 between 28 August 2009 and 27 August 2010

The value of these options will be expensed over the vesting period in accordance with AASB 2

The Company has an ownership-based compensation scheme for executives and senior employees.

Each employee share option converts to 1 ordinary share of ThinkSmart Limited on exercise. No amounts are paid or payable by the recipient of the options. The options carry neither rights or dividends nor voting rights. Options may be exercised at any time within the specified exercise period to the date of their expiry.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

| Options series | Number | Grant date | Expiry date | Exercise price \$ | Fair value at grant date |
|---------------------------|-----------|------------|-------------|----------------------|-----------------------------|
| (1) Employee options (*) | 210,000 | 05/01/2006 | 31/12/2006 | \$1.75 | \$0.23 |
| (2) Employee options (*) | 350,000 | 05/01/2006 | 31/12/2010 | \$2.50 | \$0.26 |
| (3) Executive options (*) | 1,000,000 | 28/08/2006 | 27/08/2008 | \$4.50 | \$0.01 |
| (4) Executive options (*) | 350,000 | 28/08/2006 | 27/08/2009 | \$5.50 | \$0.05 |
| (5) Executive options (*) | 350,000 | 28/08/2006 | 27/08/2010 | \$6.50 | \$0.02 |

(*) In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2006 vest at various dates.

The weighted average fair value of the share options granted during the financial year is \$0.07 (2005: \$0.01). Options were priced using a binomial option pricing model. Where relevant, the expected useful life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option, where applicable), and behavioural considerations. Expected volatility is based on that observed for comparable listed companies over the time period appropriate to the option grant in question.

| | (1) Employee options | (2) Employee options | (3) Executive options | (4) Executive options | (5) Executive options |
|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| Grant date share price | \$1.75 | \$1.75 | \$1.75 | \$1.75 | \$1.75 |
| Exercise price | \$1.75 | \$2.50 | \$4.50 | \$5.50 | \$6.50 |
| Expected volatility | 36.6% | 41.4% | 30.4% | 34.5% | 26.9% |
| Option life (days) | 1,089 | 1,817 | 728 | 1,092 | 1,456 |
| Dividend yield | 0% | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 5.18% | 5.17% | 5.84% | 5.81% | 5.87% |

The following reconciles the outstanding share options granted under the employee share option plan and the beginning and end of the financial year:

| | 2006 | | 2005 | |
|--|----------------------|---|----------------------|---|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance at beginning of the financial year | 1,000,000 | \$1.75 | 1,000,000 | \$1.75 |
| Granted during the financial year | 2,260,000 | \$4.40 | - | - |
| Forfeited during the financial year | - | - | - | - |
| Exercised during the financial year (1) | (1,000,000) | \$1.75 | - | - |
| Expired during the financial year | - | - | - | - |
| Exercisable at end of the financial year | 2,260,000 | \$4.40 | 1,000,000 | \$1.75 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

The following share options granted under the employee share option plan were exercised during the financial year:

| | Number exercised | Exercise date | Share price at exercise date |
|-------------------|------------------|---------------|------------------------------|
| Executive options | 1,000,000 | 05/08/2006 | \$1.75 |

The share options outstanding at the end of the financial year had exercise prices as detailed in the above reconciliation and a weighted average remaining contractual life of 1,019 days (2005: 240 days).

| | Consolidated | | Company | |
|--|------------------|----------|------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 21. Reserves | | | | |
| Equity settled employee benefits reserve (i) | 37,434 | - | 37,434 | - |
| Option buy-back reserve (ii) | (621,072) | - | (621,072) | - |
| Foreign currency translation reserve (iii) | (227,847) | - | - | - |
| | <u>(811,485)</u> | <u>-</u> | <u>(583,638)</u> | <u>-</u> |

- (i) The share-based compensation reserve arises on the grant of share options to executives under the employee share option plan. Amounts are transferred out of the reserves and into issued capital when the options are exercised. Further information about the share-based payments is made in note 20(v) to the financial statements.
- (ii) The parent company purchased an option that HBOS held over 10% of the issued capital of the company for a consideration, at fair market value, of \$621,072. The transaction is a negative equity transaction.
- (iii) Exchange differences relating to the translation of the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

| | Consolidated | | Company | |
|--|--------------|------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |

22. Notes to the Cash Flow Statement

- (a) For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Reconciliation of cash and cash equivalents

Cash balance comprises:

| | | | | |
|-----------------------------|------------------|----------------|---|---|
| - cash and cash equivalents | <u>2,000,378</u> | <u>698,021</u> | - | - |
|-----------------------------|------------------|----------------|---|---|

During the financial year, the Group acquired control of the UK business. There were no cash outlays arising from this transaction as consideration remains payable as at 31 December 2006.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Notes to the Cash Flow Statement (cont.)

| | Consolidated | | Company | |
|---|--------------|------------|-------------|-------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| (b) Reconciliation of the profit /(loss) for the year to net cash flows from operating activities: | | | | |
| Profit/(loss) before tax | 817,444 | 379,836 | (1,637,930) | (1,230,648) |
| Depreciation and amortisation | 449,235 | 311,713 | - | - |
| (Profit)/loss on disposal of plant and equipment | 477 | (182) | - | - |
| Provision for doubtful debts | 85,386 | - | - | - |
| Provision for employee entitlements | 71,153 | (90,091) | - | - |
| Equity settled share based payment | 37,434 | - | 37,434 | - |
| Foreign exchange (gains)/losses – investment in RentSmart Limited | 3,929 | 7,824 | - | - |
| Movement in Loan Diminution | - | - | 1,600,496 | 1,230,648 |
| (Increase) / decrease in assets: | | | | |
| Trade receivables and deposits | (400,663) | 185,955 | - | - |
| Deferred tax asset | (109,184) | 169,992 | - | - |
| Other Assets | (344,441) | (207,709) | - | - |
| Rental asset inventory | 79,960 | (54,397) | - | - |
| Increase / (decrease) in liabilities: | | | | |
| Trade and other creditors | (115,250) | 324,238 | - | - |
| Net cash from operating activities | 146,966 | 1,028,179 | - | - |
| (c) Financing facilities | | | | |
| Secured bank overdraft facility reviewed annually and payable at call: | | | | |
| - amount used | 755,816 | - | - | - |
| - amount unused | 728,752 | 250,000 | - | - |
| | 1,484,568 | 250,000 | - | - |
| Hire purchase and/or leasing facilities: | | | | |
| - amount used | 96,948 | 84,481 | - | - |
| - amount unused | 201,884 | 165,519 | - | - |
| | 298,832 | 250,000 | - | - |
| Secured bill acceptance facility: | | | | |
| - amount used | - | 602,654 | - | - |
| - amount unused | 1,011,510 | 408,856 | - | - |
| | 1,011,510 | 1,011,510 | - | - |
| Interest rate swap facility: | | | | |
| - amount used | - | - | - | - |
| - amount unused | 200,000 | 200,000 | - | - |
| | 200,000 | 200,000 | - | - |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Notes to the Cash Flow Statement (cont.)

| | Consolidated | | Company | |
|--|------------------|------------------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Other finance facilities (business credit card, payroll facility, term loan, multi-option facility): | | | | |
| - amount used | 3,464,064 | - | - | - |
| - amount unused | 500,000 | 1,490,000 | - | - |
| | 3,964,064 | 1,490,000 | - | - |
| Total Financing Facility | 6,958,974 | 3,201,510 | - | - |

The total financing facility of \$6,958,974 identified above is reviewed annually and secured over the assets of the group.

(d) Non-cash financing transactions

- (i) The consolidated entity entered into no non-cash finance transactions during the period.

23 Leases and Hire Purchase Obligations

Finance Leases – Leasing Arrangements

Finance leases relate to computer equipment with lease terms of between 3 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

| | Note | Consolidated | | Company | |
|--|------|--------------|---------|---------|------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| Finance lease liabilities | | | | | |
| No later than 1 year | | 52,043 | 38,377 | - | - |
| Later than 1 year and not later than 5 years | | 55,050 | 55,080 | - | - |
| Minimum lease payments | | 107,093 | 93,457 | - | - |
| Less future finance charges | | (10,145) | (8,976) | - | - |
| Present value of minimum lease payments | | 96,948 | 84,481 | - | - |
| Included in the financial statements as: | | | | | |
| Current | 16 | 41,898 | 29,401 | - | - |
| Non-current | 19 | 55,050 | 55,080 | - | - |
| | | 96,948 | 84,481 | - | - |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23 Leases and Hire Purchase Obligations (cont.)

Operating Leases – Leasing Arrangements

Operating leases relate to office facilities with lease terms of between 1 and 4 years, with an option to extend for a further 3 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

| | Consolidated | | Company | |
|--|--------------|---------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Non-cancellable operating lease payments: | | | | |
| No later than 1 year | 563,112 | 311,952 | - | - |
| Later than 1 year and not later than 5 years | - | 623,903 | - | - |
| | 563,112 | 935,855 | - | - |

No provisions have been recognised in respect of non-cancellable operating leases.

| | Consolidated | | Company | |
|--|--------------|--------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 24. Remuneration of auditors | | | | |
| Amounts received or due and receivable by the auditors of the consolidated entity: | | | | |
| Auditing the financial report | 71,424 | 74,963 | - | - |
| Other auditors | 28,888 | - | - | - |
| Other Services - Taxation | 20,615 | - | - | - |
| | 120,927 | 74,963 | - | - |

25. Segment Information

The consolidated entity operates predominantly in one industry being the arranging of rental finance for equipment, and in two geographical areas, Australia and Europe.

| Geographical Segments | Revenue from external customers | | Segment assets | |
|-----------------------|---------------------------------|------------|----------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Australia | 12,169,343 | 10,717,784 | 7,343,182 | 2,679,763 |
| Europe | 4,286,938 | 1,192,000 | 11,133,086 | 373,000 |
| Total | 16,456,281 | 11,909,784 | 18,476,268 | 3,052,763 |

26. Contingent Liabilities

There were no contingent liabilities at the end of the financial year.

27. Contingent Inertia Assets

Under funder agreements, the entity is entitled to future cash flows subject to the completion of current contracts to full term by the customer, the funder receiving all amounts due under the rental contract and the business exercising its option to purchase those assets at the agreed nominal value.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

27. Contingent Inertia Assets (cont.)

The business aims to realize the future cash flow either by re-rental of the assets acquired or sale of goods at auction or to other parties. The business has a track record of re-renting or selling these assets however cannot reliably measure the value of the cash flows except by its least profitable sales channel, public auction. A conservative estimate of its realisable value has been made by estimating expected sales proceeds through the auction sales channel. The after-tax cash flows, calculated from rental contracts in existence at 31 December 2006, are discounted using an appropriate risk factors. The estimated value of future cash flows is \$8,938,954 (2005 \$5,807,800, Australia only, representing the undiscounted pre-tax value of assets as determined by reference to auction sales history). A value of \$4,732,977 has already been brought to account as part of the business combination (refer note 12 and 30) in accordance with accounting standards. Revenue relating to the re-rental of assets is brought to accounts as that rental income is received. Revenue relating to the sale of the asset is brought to account when the asset is sold to a third party.

28. Key management personnel compensation

The aggregate compensation of the specified directors and specified executives, being the key management personnel, is set out below

| | Consolidated | | Company | |
|-----------------------------------|----------------|----------------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits | 652,986 | 634,893 | - | - |
| Post-employment benefits | 56,386 | 51,802 | - | - |
| Other long-term employee benefits | 87,920 | - | - | - |
| Termination benefits | - | - | - | - |
| Share-based payment | 37,434 | - | - | - |
| | <u>834,726</u> | <u>686,695</u> | - | - |

- a) During the year there were 1,700,000 options over ordinary shares issued to the Managing Director.
- b) As at period end 10,061,970 shares in ThinkSmart Limited were held by directors and their related entities.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29. Financial Instruments

29 (a) Financial risk management objectives

Terms and conditions

The consolidated entity's terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised at the balance date, are as follows:

| Recognised Financial Instruments | Balance Sheet Notes | Terms and Conditions |
|---|---------------------|---|
| <i>(i) Financial assets</i> | | |
| Receivables – trade receivables | 7 | Credit sales require funder approval. |
| Investment in RentSmart Limited | 11 | Investment is denominated in Sterling and is susceptible to movements in the rate of exchange between the Australian dollar and the UK Pound Sterling. The amount is repayable out of surplus cash flow within RentSmart Limited. |
| Recognised Financial Instruments | Balance Sheet Notes | Terms and Conditions |
| <i>(ii) Financial liabilities</i> | | |
| Trade payables and accruals | 15 | Trade liabilities are normally settled on 30 day terms. |
| Bank overdraft | 16 | Interest is charged at a variable rate and if the overdraft is exceeded an additional 4% interest is payable. |
| Hire purchase and finance lease liabilities | 16,19,23 | As at balance date, the controlled entity had hire purchase and finance leases with an average term of 3 years. |

29 (b) Interest rate risk

The following table details the consolidated entity's exposure to interest rate risk:

| Financial Instruments | Floating interest rate | | Fixed interest rate maturing in: | | | | | | Weighted average effective interest rate | | |
|-------------------------------------|------------------------|----------------|----------------------------------|----------------|-------------------|----------------|-------------------|----------|--|----------|----------|
| | | | 1 year or less | | Over 1 to 5 years | | More than 5 years | | | | |
| | | | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | | | 2006 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| <i>(i) Financial assets</i> | | | | | | | | | | | |
| Receivables – Related parties | - | - | - | - | - | - | - | - | - | - | - |
| <i>(ii) Financial liabilities</i> | | | | | | | | | | | |
| Bank bill acceptance facility | - | 602,654 | - | 400,000 | - | 202,654 | - | - | - | 6.2 | 5.8 |
| Term loan | 3,464,064 | - | - | - | - | - | - | - | - | 7.3 | - |
| Other payable | 7,746,421 | - | - | - | - | - | - | - | - | 6.8 | - |
| Hire purchase and lease liabilities | - | - | 41,898 | 29,401 | 55,050 | 55,080 | - | - | - | 7.8 | 13.7 |
| Total | 11,210,485 | 602,654 | 41,898 | 429,401 | 55,050 | 257,734 | - | - | - | - | - |

All other financial assets and financial liabilities, both recognised and unrecognised, are non-interest bearing.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29. Financial Instruments (cont.)

29 (c) Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their aggregate net fair values.

29 (d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

Concentrations of credit risk

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by transferring substantially all credit risks to the funding institution in Australia. The consolidated entity's credit risk is limited to the loss reserves held with the funding institutions less any allowances for doubtful debts.

29 (e) Foreign currency risk management

Liabilities incurred in each respective geographical territory are paid for by the cash flows of the functional currency of that territory. Exposures for singular transactions greater than \$50,000 are hedged with forward exchange contracts to mitigate exchange rate risk and are considered separately as they arise. The consolidated entity has no forward exchange contracts as at reporting date (2005: nil)

29 (f) Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate reserve banking facilities and reserve borrowing facilities by continuously reviewing its facilities and cash flows.

30. Acquisition of business

RentSmart Limited's core business, operating in the UK, provides rental finance facilities through a network of retail outlets. Since inception RentSmart Limited has operated as a 50/50 joint venture with Halifax Bank of Scotland. ThinkSmart Europe Limited has accounted for the investment under the equity accounting method. An offer to purchase the 50% share owned by Halifax Bank of Scotland was made during the period. The conditions precedent to the sale were satisfied on 1 December 2006 whereupon the sale became unconditional with final settlement due on or before 20 June 2007.

The initial accounting for the acquisition of RentSmart Limited (UK) has been provisionally determined at reporting date. The cost of the acquisition comprises of cash consideration of £2,950,000 plus interest accrued cumulatively at a rate of 2% above the Halifax Bank of Scotland base rate from the date of signing of the initial share purchase agreement until final settlement. A residual arose from the acquisition and a value of \$4,732,977 has been attributable to the unexpired contract revenue stream ("inertia") by now gaining full access to unexpired rental revenue from contracts in existence at 1 December 2006 using appropriate risk based discount factors. The balance, of \$2,052,610, has been provisionally recognised as the value of the distribution network from which the company originates rental contracts. The asset has been amortised on a straight line basis until the end of the current contract term.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

30. Acquisition of business (cont.)

The book and market value of RentSmart Limited at acquisition date is as follows (in \$Australian):

| | Book Value \$A | Fair Value Adjustments \$A | Fair value on acquisition \$A |
|---------------------------------|-------------------------------|---|--|
| Current assets | | | |
| Trade and other receivables | 1,923,164 | - | 1,896,542 |
| Inventories | 4,711 | - | 4,711 |
| Non-current assets | | | |
| Plant and equipment | 215,986 | | 242,608 |
| Intangibles | 3,994 | - | 3,994 |
| Deferred tax asset | 549,561 | - | 549,561 |
| Goodwill | - | 2,052,610 | 2,052,610 |
| Other intangible assets (i) | - | 6,785,587 | 6,785,587 |
| Current liabilities | | | |
| Trade and other payables | (2,215,320) | | (2,215,320) |
| Other financial liabilities | (434,671) | | (434,671) |
| Non-current liabilities | | | |
| Other payables | (3,313,992) | - | (3,313,992) |
| Other financial liabilities | (1,836,582) | - | (1,836,582) |
| Deferred tax liability | | (2,052,610) | (2,052,610) |
| Net (liabilities)/assets | <u>(5,103,149)</u> | | <u>1,682,438</u> |
| Consideration payable (ii) | | | 1,682,438 |

Included in the net profit for the period is \$177,468 attributable to the post-combination period. Had this business combination been effected at 1 January 2006, the revenue of the Group would be \$7,884,987 and a net profit before tax of \$4,213,112.

(i) Other intangible assets are disclosed in note 12.

(ii) This balance represents the consideration payable on ordinary shares. The total consideration payable for preference shares, accrued preference shares, ordinary shares and accrued interest is disclosed in note 15

31 Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

32 Earnings per share

| | 2006 Cents per share | 2005 Cents per share |
|---|-------------------------|-------------------------|
| Basic earnings per share | | |
| From continuing operations | \$0.01 | \$0.01 |
| Total basic earnings per share | \$0.01 | \$0.01 |
| Diluted earnings per share | | |
| From continuing operations | \$0.01 | \$0.01 |
| Total diluted earnings per share | \$0.01 | \$0.01 |
| Basic earnings per share | | |
| The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows: | | |
| | 2006 | 2005 |
| | \$'000 | \$'000 |
| Net profit | 126 | 209 |
| Other | - | - |
| Earnings used in the calculation of basic EPS from continuing operations | 126 | 209 |
| | 2006 | 2005 |
| | No.'000 | No.'000 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 21,289 | 20,333 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

32 Earnings per share (cont'd)

| Diluted earnings per share | | | |
|---|--|----------------|----------------|
| The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows: | | | |
| | | 2006 | 2005 |
| | | \$'000 | \$'000 |
| Net profit | | 126 | 209 |
| Other | | - | - |
| Earnings used in the calculation of diluted EPS from continuing operations | | 126 | 209 |
| | | 2006 | 2005 |
| | | No.'000 | No.'000 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share are as follows: | | | |
| Weighted average number of ordinary shares used in the calculation of basic EPS | | | |
| | | 21,289 | 20,333 |
| Shares deemed to be issued for no consideration in respect of: | | | |
| Employee options | | 2,260 | 1,000 |
| Rights issue options | | - | 600 |
| Convertible notes options | | - | 467 |
| Weighted average number of ordinary shares used in the calculation of diluted EPS | | 23,549 | 22,400 |

33 Related party disclosures

a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 11 to the financial statements.

Equity interests in associates and joint ventures

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 11 to the financial statements. ThinkSmart Limited held 50% of RentSmart Limited until the business was fully acquired on 1 December 2006.

b) Key management personnel compensation

Details of key management personnel are disclosed in note 28 to the financial statements.

c) Transactions with related parties

Transactions with the parent company

During the year proceeds received from the exercise of employee options were loaned to RentSmart Unit Trust for working capital requirements.

Transactions involving other related parties

During the year RentSmart Limited (UK) provided administrative and management services to Spanish and French operations to the value of \$715,783 on normal commercial terms and conditions.

Mr Montarello and Mr Penglis from the parent company board are members of the RentSmart Limited (UK) board and provide those services as representatives of the parent company during the period preceding and after the business combination at no additional expense to the parent or RentSmart Limited.

Independent audit report to the members of ThinkSmart Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both ThinkSmart Limited (the company) and the consolidated entity, for the financial year ended 31 December 2006 as set out on pages 6 to 44. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

Deloitte.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of ThinkSmart Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

A T Richards
A T Richards
Partner
Chartered Accountants
Perth, 14 April 2007

