

## APPENDIX 4E

### ANNUAL REPORT

#### THINKSMART LIMITED ACN 092 319 698

#### YEAR ENDED 31 DECEMBER 2007

1 Details of the reporting period and the previous corresponding period

Current period:	1 January 2007 to 31 December 2007
Prior corresponding period:	1 January 2006 to 31 December 2006

2 Results for announcement to the market

Key Information	Year Ended 31 December 2007 \$	Year Ended 31 December 2006 \$	Percentage increase on previous period
2.1 Operating income	36,354,265	15,677,257	132%
2.2 Profit after tax attributable to members of ThinkSmart Limited	738,066	126,183	485%
2.3 Profit after tax attributable to members of ThinkSmart Limited	738,066	126,183	485%

2.4 Dividends

No dividend is declared in the current year.

3 Consolidated balance sheet

Refer to the 2007 annual report.

4 Consolidated income statement

Refer to the 2007 annual report.

5 Consolidated cash flow statement

Refer to the 2007 annual report.

6 Dividend details

Not applicable as no dividend has been declared in 2007.

7 Dividend or distribution reinvestment plans

ThinkSmart Limited does not currently operate a dividend reinvestment plan.

8 Retained earnings

	Year Ended 31 December 2007 \$	Year Ended 31 December 2006 \$
Balance at the beginning of the financial year	(6,901,724)	(6,406,835)
Option buy-back reserve written off to retained earnings	-	(621,072)
Profit attributable to equity shareholders of ThinkSmart Limited	738,066	126,183
Total retained earnings	(6,163,659)	(6,901,724)

9 Net tangible assets per security

	Year Ended 31 December 2007 \$	Year Ended 31 December 2006 \$
Ordinary shares	0.05	

ThinkSmart Limited was admitted to the official list on 1 June 2007, and therefore there is no figure for net tangible assets per security for the year ended 31 December 2006.

10 Control gained or lost over entities on the financial year

Name of entities where control was gained in the financial year	Date control gained
ThinkSmart Italy Srl	1 January 2007
ThinkSmart Inc	10 August 2007

  

Name of entities where lost was gained in the financial year	Date control lost
None	

The above entities did not materially contribute to the reporting entity's profit from ordinary activities during the period they were controlled.

11 Investment in Associates and Joint Ventures

ThinkSmart Limited does not have a percentage holding in any associates or joint venture entities.

12 Other information

Refer to the 2007 annual report.

13 Foreign entities

The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the Internal Accounting Standards Board (IASB).

14 Commentary on results for the financial year

Refer to the 2007 annual report.

15 Audited report

This report is based on audited accounts.

16 Statement if financial report is not audited

Not applicable as the financial report is audited.

17 Statement if financial statement is audited

The financial report has been audited and is not subject to disputes or qualifications.

**THINKSMART LIMITED**

**FINANCIAL REPORT  
FINANCIAL YEAR ENDED**

**31 DECEMBER 2007**

**THINKSMART LIMITED**  
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# THINKSMART LIMITED

## CORPORATE INFORMATION

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ABN 24 092 319 698

### Directors

P Mansell (Chairman)

N R Montarello (Managing Director)

D Griffiths

S Penglis

### Company Secretary

N Barker

### Registered Office

Level 1, The West Centre

1260 Hay Street

West Perth, WA 6005

Australia

### Principal place of business

Level 1, The West Centre

1260 Hay Street

West Perth, WA 6005

Australia

Phone: 61 8 9463 7500

### Share Register

Computershare Investor Services Pty Limited

Level 2, 45 St Georges Terrace

Perth, WA 6000

Australia

Phone: 1300 850 505

ThinkSmart Limited shares are listed on the Australian Securities Exchange (ASX code: TSM).

### Solicitors

Freehills

250 St Georges Terrace

Perth, WA 6000

Australia

### Bankers

ANZ

West Perth

Australia

### Auditors

KPMG

Australia

## **THINKSMART LIMITED DIRECTORS' REPORT**

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The Directors of ThinkSmart Limited ("the company") submit herewith the annual financial report of the company for the financial year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### **DIRECTORS**

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### **Names, qualifications, experience and special responsibilities**

##### **Peter Mansell (Age 61)**

B.Com, LLB, H. Dip Tax, FAICD

*Non-Executive Chairman*

Peter Mansell joined the board on 12 April 2007 and was appointed Chairman on the 7 May 2007. Mr Mansell practiced as a business lawyer for 35 years and has a wide range of experience in corporate matters. He was at various times the Freehills National Chairman (1995-2000), Managing Partner of the Perth office (1992-2002) and a member of the firm's National Board (1989-2002). Mr Mansell is a Fellow of the Australian Institute of Company Directors, having been President of the Western Australian division and having sat on its National Board from 2001 to 2003. He is currently the Chairman of the following listed companies; West Australian Newspaper Holdings Ltd, Zinifex Ltd and a director of Great Southern Limited and Bunnings Property Management Limited (responsible entity for the Bunnings Warehouse Property Trust).

##### **David Griffiths (Age 57)**

B. Ec (Hons), M. Ec, FAICD

*Non-Executive Director*

David Griffiths joined the board on 28 November 2000 and has over fourteen years experience in investment banking, most recently as Division Director of Macquarie Bank Limited and previously as Executive Chairman of Porter Western Limited.

Mr Griffiths is currently a non-executive Chairman of Great Southern Plantations Limited; ARC Energy Limited, Advanced Nanotechnology Limited, and a non-executive director of Automotive Holdings Group and Northern Iron Limited. Mr Griffiths has not served as a director of any other listed companies, other than those noted above, as at the reporting date or in the past three years.

Mr Griffiths is also a Pro-Chancellor of the University of Western Australia and also sits on the board of the Perth International Arts Festival.

##### **Ned Montarello (Age 46)**

*Managing Director and Chief Executive Officer*

Ned Montarello has over 20 years experience in the finance industry and joined the board in 7 April 2000. Mr Montarello founded ThinkSmart over 10 years ago and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government's Entrepreneur of the Year Award in 1998. He steered the expansion of the business into Europe, establishing agreements in 2002/2003 with DSG International and HBOs to launch in the UK. He subsequently played a leading role in securing the broader agreement with DSG and new agreements with Banco Santander and Societe Generale to expand into Spain and France, and Italy in early 2008.

## THINKSMART LIMITED DIRECTORS' REPORT

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### Steven Penglis (Age 47)

B. Juris and B. Law

*Non-Executive Director*

Steven Penglis joined the board on 1 July 2000 and stepped down as Chairman on the 6 May 2007. Mr Penglis is a Partner at Freehills since 1987 and former Chairman of the Legal Practice Board of Western Australia. Mr Penglis specialises in the area of Corporate and Corporations Law Litigation, advising many public companies, including RentSmart, before his appointment to the Board. He is a part-time Senior Member of the Commonwealth Administrative Appeals Tribunal; an elected member of the Legal Practice Board of Western Australia and former chairman; and an elected member of the Council of the Law Society of Western Australia.

### Curt McDonald (Age 44)

PhD. Econs

*Non-Executive Director*

Curt McDonald joined the board on 22 July 2003 and resigned from the board on 11 April 2007. As Head of Risk at Australian Capital Equity, the holding company for Kerry Stokes, Mr McDonald specializes in investment analysis and financial management. He has extensive experience in investment banking and international finance including a five year stint in New York working for firms such as Citicorp Securities, Bear Stearns and Donaldson, Lufkin & Jenrette. He holds a PhD in Economics from the University of Illinois.

### COMPANY SECRETARY

**Neil Barker** B.Bus, FCPA

Neil Barker is a Certified Practising Accountant (Fellow) with over 23 years experience in banking and finance. Prior to joining ThinkSmart, Mr Barker was the Group Financial Controller of Alinta Limited, an Australian public listed company. Prior to joining Alinta, he was employed with the NAB Group in senior finance roles based in the UK and Australia.

### DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings held during the financial year. During the financial year 11 board meetings were held.

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meeting	
	A	B	A	B	A	B
Peter Mansell	8	9	1	1	1	1
David Griffiths	11	11	1	1	1	1
Ned Montarello	11	11	-	-	1	1
Steven Penglis	10	11	-	-	1	1
Curt McDonald	2	2	-	-	-	-

**A** – Number of meetings attended

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

# THINKSMART LIMITED

## DIRECTORS' REPORT

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### CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices that have been adopted progressively since the listing of the Company on 4 June 2007. The Company's corporate governance practices have fully complied with the ASX Corporate Governance Council recommendations by the 31 December 2007.

#### Board of Directors

##### Role of the Board

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

To fulfil this role, the Board has adopted a charter which establishes the relationship between the Board and management and describes their functions and responsibilities. The Board's responsibilities, as set out in the Board Charter, include:

- working with management to establish ThinkSmart's strategic direction;
- monitoring management and financial performance;
- monitoring compliance and risk management;
- reviewing procedures in place for appointment of senior management and monitoring of its performance and for succession planning; and
- ensuring effective disclosure policies and procedures.

Matters which are specifically reserved for the Board or its committees under the Board Charter include:

- appointment of a chair;
- appointment and removal of the CEO;
- appointment of directors to fill a vacancy or as additional directors;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- development and review of corporate governance principles and policies;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of shareholders; and
- any other specific matters nominated by the Board from time to time.

It is also responsible for approving and monitoring financial and other reporting. Detail of the board's charter is located in the Company's website ([www.thinksmartworld.com](http://www.thinksmartworld.com)).

The board, together with the Nomination and Remuneration Committee, determines the size and composition of the Board, subject to the terms of the constitution.

The board has delegated responsibility for operations and administration of the Company to the chief executive officer and executive management. Responsibilities are delineated by formal authority delegations.

##### Board process

To assist in the execution of its responsibilities, the board has established a Nomination and Remuneration Committee, as well as an Audit and Risk Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established framework for management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

##### Independent professional advice and access to company information

Following consultation with the chairperson, directors may seek independent professional advice at the Company's expense. Generally, this advice will be available to all directors.

## **THINKSMART LIMITED**

### **DIRECTORS' REPORT**

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#### Composition of the board

The names of the directors of the Company in the office at the date of this report are set out in the Directors' report on page 2 and 3 of this report. The composition of the board is determined using the following principles:

- The Board does not believe that it should establish a limit on tenure. While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight in the Company and its operation and, therefore, an increasing contribution to the Board as a whole.
- It is intended that the Board should comprise a majority of independent non-executive directors and comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds.
- It is also intended that the chair should be an independent non-executive director.
- The Board regularly reviews the independence of each director in light of the interests disclosed to the Board.

#### **Nomination and Remuneration Committee**

The objective of the Nomination and Remuneration Committee is to help the Board ensure that ThinkSmart has a board of an effective composition, size and the commitment to adequately discharge its responsibilities and duties, and to determine and review the compensation arrangements for the Directors and senior management team.

The Nomination and Remuneration Committee is responsible for reviewing the Board's and its Committees' performance. On an annual basis:

- Directors will provide written feedback in relation to the Board and its Committees against an agreed set of criteria and each Committee will do the same regarding its own performance;
- Feedback will be collected by the chair of the Board, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its Committees;
- The CEO will also provide feedback from senior management in connection with any issues that may be relevant in the context of the Board performance review; and
- Where appropriate to facilitate the review process, assistance may be obtained from third party advisers.

The current members of the Committee are P Mansell (Chair), N Montarello, S Penglis and D Griffiths.

The Committee will meet as often as the Committee members deem necessary in order to fulfil their role. However, it is intended that the Committee will normally meet at least annually.

The committee consists of a minimum of 3 members, majority being non-executive directors, and independent director as chair. The nomination and remuneration committee has a documented charter, approved by the board, which is available on the website ([www.thinksmartworld.com](http://www.thinksmartworld.com)).

#### **Remuneration Report**

The remuneration report for 2007, as presented below, has been prepared for consideration by shareholders. The remuneration report is set out under the following main headings:

- A: Principles of compensation
- B: Directors' and executive officers' remuneration
- C: Service agreements
- D: Share-based compensation
- E: Bonus remuneration

## THINKSMART LIMITED

### DIRECTORS' REPORT

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#### A. Principles of compensation - audited

Remuneration is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the Group including the five most highly remunerated S300A executives.

Compensation levels for key management personnel and secretaries of the Company, and key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of both the Company and the Group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

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

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance

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

#### *Non-Executive Directors*

Fees and payments to Non-Executive Directors reflect the demands which are made on and the responsibilities of the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Directors do not receive Share Options.

#### *Non-Executive Director's fees*

The non-executive directors shall be paid by way of fees for services the maximum aggregate sum as may be approved from time to time by ThinkSmart in general meeting. The current maximum aggregate annual sum approved by shareholders at a general meeting is \$600,000. Any change to that aggregate annual sum needs to be approved by the shareholders. The constitution also makes provision for ThinkSmart to pay all reasonable expenses of directors in attending meetings and carrying out their duties.

#### *Executive pay*

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the ThinkSmart Long Term Incentive Plan
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

#### *Base pay*

Executives are offered a competitive salary that comprises the components of base pay and benefits. Base pay for Senior Executives is reviewed annually by the Remuneration Committee to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

#### *Short-term performance incentive*

Short-term performance incentives (STIs) vary according to individual contracts, however, for Senior Executives they are broadly based as follows:

- a component of the STI is linked to the individual performance of the executive (this is based on a number of factors, including performance against budgets, achievement of key performance indicators (KPIs) and other personal objectives)
- a component of the STI is linked to the financial performance of the business or measured against budgets determined at the beginning of each financial year.

## **THINKSMART LIMITED**

### **DIRECTORS' REPORT**

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Using various profit performance targets and personal performance objectives assessed against KPIs which are aligned with achievement of the Board's strategic objectives, the Company ensures variable reward is only paid when value has been created for Shareholders.

For middle and lower level management, total STIs are linked to individual performance measures and also to the financial performance of the business.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Executive Management.

The STI target annual payment is reviewed annually.

#### *Long term incentive*

Long-term incentives to the Chief Executive Officer and certain senior employees are provided via the ThinkSmart Employee Share Option Plan ("ESOP"). Information on the plan is detailed on pages 9 to 12.

#### **B. Directors' and executive officers' remuneration - audited**

##### *Amount of remuneration*

Details of the remuneration of the Directors and the Key Management Personnel (as defined in AASB 124 Related Party Disclosures) of ThinkSmart Limited and its subsidiaries are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term performance incentives above.

The Key Management Personnel of ThinkSmart Limited are the Directors and certain executives that report directly to the Chief Executive Officer. This includes the five Group executives who received the highest remuneration for the year ended 31 December 2007.

##### *Key management personnel and other executives of the Group*

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Company executives and relevant Group executives who receive the highest remuneration and other key management personnel are:

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

		Short Term				Post employment		Share-based payments		Proportion of remuneration related	Value of options as proportion of remuneration
		Salary & fee	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits	Termination benefits	Options and rights	Total		
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Directors</b>											
<b>Non-Executive Directors</b>											
P Mansell	2007	48,112	-	-	48,112	4,330	-	-	52,442	-	-
S Penglis	2007	57,850	-	-	57,850	5,206	-	-	63,056	-	-
	2006	70,000	-	-	70,000	6,300	-	-	76,300	-	-
D Griffiths	2007	50,000	-	-	50,000	4,500	-	-	54,500	-	-
	2006	50,000	-	-	50,000	4,500	-	-	54,500	-	-
C McDonald	2007	14,038	-	-	14,038	1,263	-	-	15,301	-	-
	2006	50,000	-	-	50,000	4,500	-	-	54,500	-	-
<b>Executive Director</b>											
N Montarello	2007	530,721	-	-	530,721	47,765	-	10,019	588,505	2%	2%
	2006	456,510	-	-	456,510	41,086	-	3,441	501,037	1%	1%
<b>Executives</b>											
N Barker	2007	251,411	-	-	251,411	22,627	-	6,997	281,035	2%	2%
	2006	211,066	-	-	211,066	18,578	-	4,480	234,124	2%	2%
M Radotic	2007	140,000	11,000	-	151,000	13,590	-	2,468	167,058	8%	1%
	2006	103,365	-	-	103,365	9,173	-	-	112,538	-	-
G Varma	2007	169,266	-	-	169,266	15,385	-	9,947	194,598	5%	5%
	2006	159,710	-	-	159,710	14,374	-	9,838	183,922	5%	5%
G Parry	2007	262,616	23,979	10,639	297,234	13,678	-	2,468	313,379	8%	1%
	2006	86,013	-	4,435	90,448	2,445	-	-	92,893	-	-
J Rozenbroek	2007	241,437	134,450	27,214	403,101	19,315	-	2,468	424,884	32%	1%
	2006	112,219	-	-	112,219	4,892	-	-	117,111	-	-
<b>Total</b>	<b>2007</b>	<b>1,765,451</b>	<b>169,429</b>	<b>37,853</b>	<b>1,972,733</b>	<b>147,659</b>	<b>-</b>	<b>34,367</b>	<b>2,154,758</b>	<b>9%</b>	<b>2%</b>
<b>Total</b>	<b>2006</b>	<b>1,298,883</b>	<b>-</b>	<b>4,435</b>	<b>1,303,318</b>	<b>105,848</b>	<b>-</b>	<b>17,759</b>	<b>1,426,925</b>	<b>1%</b>	<b>1%</b>

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

C. Service agreements

Service agreements can provide for the provision of short-term performance incentives, eligibility for the ThinkSmart ESOP, other benefits including the use of a Company motor vehicle, tax advisory fees, payment of benefits forgone at a previous employer, relocation, living, tax equalisation, travel and accommodation expenses whilst an executive is required to live away from their normal place of residence.

Only remuneration and other terms of employment for the Chief Executive Officer is formalised in service agreements. The Managing Director's employment agreement has a fixed term of 3 years to 28 August 2009 with provision to extend the agreement for a further period. All other employment agreements are unlimited in term but capable of termination on up to three months' notice by either the Company or the executive. The Company can make a payment in lieu of notice.

In the event of retrenchment, the executives listed in the table on page 8 are entitled to the payment provided for in the service agreement. The employment of the executives may be terminated by the Company without notice by payment in lieu of notice.

The service agreements also contain confidentiality and restraint of trade clauses.

D. Share Based Compensation

During the year, the board passed a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO. Refer to note 22 for more detailed explanation on the share split.

All options refer to options over ordinary shares of ThinkSmart Limited, which are exercisable on a one-for-one basis under the Employee Share Options Plan ("ESOP").

*Options and rights over equity instruments granted as compensation - audited*

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

After the Share Split

	No of options granted during 2007	Grant Date	Fair value per option at grant date \$	Exercise price per option \$	Expiry date	No of options vested during 2007
<b>Directors</b>						
N Montarello						4,000,000
<b>Executives</b>						
N Barker	160,000	17/04/2007	0.030	1.375	31/12/2011	-
	120,000	17/04/2007	0.004	3.000	31/12/2011	-
M Radotic	160,000	17/04/2007	0.030	1.375	31/12/2011	-
	120,000	17/04/2007	0.004	3.000	31/12/2011	-
G Parry	160,000	17/04/2007	0.030	1.375	31/12/2011	-
	120,000	17/04/2007	0.004	3.000	31/12/2011	-
J Rozenbroek	160,000	17/04/2007	0.030	1.375	31/12/2011	-
	120,000	17/04/2007	0.004	3.000	31/12/2011	-
	No of options granted during 2006	Grant Date	Fair value per option at grant date \$	Exercise price per option \$	Expiry date	No of options vested during 2006
<b>Directors</b>						
N Montarello	4,000,000	28/08/2006	0.0025	1.125	27/08/2008	-
	1,400,000	28/08/2006	0.0125	1.375	27/08/2009	-
	1,400,000	28/08/2006	0.005	1.625	27/08/2010	-

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

<b>Executives</b>						
N Barker	280,000	5/01/2006	0.065	0.625	31/12/2010	-
G Varma	280,000	5/01/2006	0.0575	0.4375	31/12/2008	-
	280,000	5/01/2006	0.065	0.625	31/12/2010	-

*Before the Share Split*

	<b>No of options granted during 2007</b>	<b>Grant Date</b>	<b>Fair value per option at grant date \$</b>	<b>Exercise price per option \$</b>	<b>Expiry date</b>	<b>No of options vested during 2007</b>
<b>Directors</b>						
N Montarello						1,000,000
<b>Executives</b>						
N Barker	40,000	17/04/2007	0.120	5.50	31/12/2011	-
	30,000	17/04/2007	0.016	12.00	31/12/2011	-
M Radotic	40,000	17/04/2007	0.120	5.50	31/12/2011	-
	30,000	17/04/2007	0.016	12.00	31/12/2011	-
G Parry	40,000	17/04/2007	0.120	5.50	31/12/2011	-
	30,000	17/04/2007	0.016	12.00	31/12/2011	-
J Rozenbroek	40,000	17/04/2007	0.120	5.50	31/12/2011	-
	30,000	17/04/2007	0.016	12.00	31/12/2011	-

	<b>No of options granted during 2006</b>	<b>Grant Date</b>	<b>Fair value per option at grant date \$</b>	<b>Exercise price per option \$</b>	<b>Expiry date</b>	<b>No of options vested during 2006</b>
<b>Directors</b>						
N Montarello	1,000,000	28/08/2006	0.010	4.50	27/08/2008	-
	350,000	28/08/2006	0.050	5.50	27/08/2009	-
	350,000	28/08/2006	0.020	6.50	27/08/2010	-
<b>Executives</b>						
N Barker	70,000	5/01/2006	0.260	2.50	31/12/2010	-
G Varma	70,000	5/01/2006	0.230	1.75	31/12/2008	-
	70,000	5/01/2006	0.260	2.50	31/12/2010	-

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

All options expire on the earlier of their expiry date or termination of the individual's employment. The options vest and/ or are exercisable 12 to 24 months from grant date. For options granted in the current year, the earliest exercise date is 1 January 2009.

Further details, including grant dates and exercise dates regarding options granted to executives under the ESOP plan are in Note 34 to the financial statements.

*Modification of terms of equity-settled share-based payment transactions - audited*

During the year, the board has made a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO.

Consequently, the options were split 1:4. The option split has been applied retrospectively in this report.

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

*Exercise of options granted as compensation - audited*

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	No of shares	Amount paid \$/share
<b>2007</b>		
No options were exercised in 2007.		
<b>2006</b>		
<b>Directors</b>		
<u>After Share Split</u>		
N Montarello	4,000,000	\$0.4375
<u>Before Share Split</u>		
N Montarello	1,000,000	\$1.75

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2007 financial year.

*Analysis of options and rights over equity instruments granted as compensation - unaudited*

Details of vesting profiles of the options granted as remuneration to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Number before Share Split	Options granted		% vested in year	% forfeited in year	Financial year in which grant vest	Value yet to vest 31 December 2007 (\$)	
		Number after Share Split	Grant Date				Min	Max
<b>Issued in 2007</b>								
<b>Executives</b>								
N Barker	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	87,200
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
M Radotic	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	87,200
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
G Parry	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	87,200
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
J Rozenbroek	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	87,200
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
<b>Issued in 2006</b>								
<b>Directors</b>								
N Montarello	1,000,000	4,000,000	28/08/06	0%	100%	1/01/2007	-	-
	350,000	1,400,000	28/08/06	0%	0%	1/01/2008	-	763,000
	350,000	1,400,000	28/08/06	0%	0%	1/01/2009	-	413,000
<b>Executives</b>								
N Barker	23,333	93,333	5/01/06	0%	0%	1/01/2008	-	120,866
	23,333	93,333	5/01/06	0%	0%	1/01/2009	-	120,866
	23,334	93,334	5/01/06	0%	0%	1/01/2010	-	120,866
G Varma	70,000	280,000	5/01/06	0%	0%	1/01/2008	-	415,100
	23,333	93,333	5/01/06	0%	0%	1/01/2008	-	120,866
	23,333	93,333	5/01/06	0%	0%	1/01/2009	-	120,866
	23,334	93,334	5/01/06	0%	0%	1/01/2010	-	120,866

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

- (a) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.
- (b) The minimum value of options yet to vest is \$nil as the service criteria may not be met and consequently the option may not vest.
- (c) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the option is exercised. The maximum values presented above are based on share price as at 31 December 2007.

*Analysis of movement of options - unaudited*

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant Group executives and other key management personnel is detailed below.

	Granted in year \$ (a)	Exercised in year \$ (b)	Lapsed in year \$ (c)	Total option value in year \$
<b>Executives</b>				
N Barker - series 1	4,800	-	-	4,800
- series 2	480	-	-	480
M Radotic - series 1	4,800	-	-	4,800
- series 2	480	-	-	480
G Parry - series 1	4,800	-	-	4,800
- series 2	480	-	-	480
J Rozenbroek - series 1	4,800	-	-	4,800
- series 2	480	-	-	480
	21,120	-	-	21,120

- (a) The value of options granted in the year is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a binominal option-pricing model with no adjustments for whether the performance criteria had been achieved.

E. Bonus remuneration - unaudited

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company, each of the five named Company executives and relevant Group executives and other key management personnel are detailed below:

	Short term incentive bonus		
	Included in remuneration \$ (a)	% vested in year	% forfeited in year (b)
<b>Directors</b>			
N Montarello	-*	-	-
<b>Executives</b>			
N Barker	-*	-	-
M Radotic	11,000	100%	-
G Varma	-*	-	-
G Parry	23,979	100%	-
J Rozenbroek	134,450	100%	-

## **THINKSMART LIMITED**

### **DIRECTORS' REPORT**

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\* No short term incentive bonus for 2007 year.

- (a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2007 financial year.
- (b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

#### **Audit and Risk Committee**

The audit and risk committee has a documented charter, approved by the board, which is available on the website. All members must be non-executive directors with a majority being independent. The Chairperson may not be the Chairperson of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The members of the audit committee during the year were non-executive directors, and are D Griffiths (Chair) and P Mansell.

The Committee's primary roles are:

- to assist the Board in relation to the reporting of financial information;
- the appropriate application and amendment of accounting policies;
- the appointment, independence and remuneration of the external auditor; and
- to provide a link between the external auditors, the Board and management of the Company.

The Committee will meet as often as the Committee members deem necessary in order to fulfil their role. However, it is intended that the Committee will normally meet quarterly.

#### **Risk Management**

The Committee's specific function with respect to risk management is to review and report to the Board that:

- the Company's ongoing risk management program effectively identifies all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

The risk management policy can be found on the Company's website ([www.thinksmartworld.com](http://www.thinksmartworld.com)).

#### Financial reporting

The chief executive officer and the chief financial officer have declared in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and is operating efficiently and effectively in all material aspects.

#### Environmental regulation

The Group's operations are not subject to any significant environmental regulation under both Commonwealth and State legislation in relation to its activities.

#### **Ethical standards**

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

#### Conflict of interest

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

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and the Group are set out in note 34 to the financial statements.

## **THINKSMART LIMITED**

### **DIRECTORS' REPORT**

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#### Code of conduct

ThinkSmart has developed a Code of Conduct which states ThinkSmart's and its employees' commitment to the conduct of its business with employees, customers, funders, retailers and other external parties.

The Code is directed at maintaining high ethical standards and integrity. Employees are expected to adhere to ThinkSmart's policies, perform their duties diligently, properly use company resources, protect confidential information and avoid conflicts of interest.

The Code sets out the reporting lines where there is a potential breach of the Code, ThinkSmart's commitment to the Code and the consequences of breaching the Code. The Code is acknowledged by all employees.

#### Trading in general Company securities by directors and employees

ThinkSmart's Guidelines for Dealing in Securities explain and reinforce the Corporations Act 2001 requirements relating to insider trading. The Guidelines are summarised below.

The Guidelines apply to all directors and employees of the ThinkSmart group, and their associates ("Relevant Persons").

The Guidelines expressly prohibit Relevant Persons buying or selling ThinkSmart securities where the Relevant Person or ThinkSmart is in possession of price sensitive or 'inside' information.

The Guidelines establish a 'window period', where, generally, Relevant Persons may buy or sell ThinkSmart's securities on ASX in the period from 31 days from the day following:

- the announcement of half-yearly results;
- the announcement of annual results; or
- the holding of the annual general meeting,

provided they are not in possession of inside information. Outside the window period, Relevant Persons must receive clearance for any proposed dealing in ThinkSmart's securities on ASX as follows:

- a director must receive approval from the Chair of the Board;
- the Chair must receive approval from the Board or the most senior director;
- executives and senior management must receive approval from the CEO; and
- all other Relevant persons must receive approval from the Company Secretary.

The Guidelines also prohibit short term dealing (buying and selling within 3 months) in ThinkSmart securities by Relevant Persons.

#### **Disclosure Policy**

ThinkSmart understands its obligations under the ASX Listing Rules and Corporations Act 2001 to keep the market fully informed of information which may have a material effect on the price or value of ThinkSmart's securities. ThinkSmart has adopted a Disclosure Policy which sets out its policy to strictly comply with the continuous disclosure requirements.

ThinkSmart's Disclosure Policy is summarised below.

- The Company Secretary has the primary responsibility for all communication with the ASX in relation to Listing Rule matters including lodging announcements with ASX. The Company Secretary is also responsible for ensuring senior management is aware of the Disclosure Policy and that the Disclosure Policy is updated.
- If management becomes aware of any information at any time that should be considered for release to the market, it must be reported immediately to the CEO, or the Group CFO / Company Secretary.
- Operating and divisional heads and group functional heads must ensure they have appropriate procedures in place within their areas of responsibility to ensure that all relevant information is reported to them so it can be dealt with in accordance with the Disclosure Policy.

## **THINKSMART LIMITED DIRECTORS' REPORT**

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### **Communication with shareholders**

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

In summary, the Continuous Disclosure Policy operates as follows:

- Information is communicated to shareholders through ASX announcements, the annual report, annual general meeting and half year and full year results announcements.
- Shareholders are able to access information, including media releases, key policies and the terms of reference of the Board Committees through ThinkSmart's website. All relevant ASX announcements will be posted on ThinkSmart's website as soon as they have been released to ASX.
- ThinkSmart encourages participation of shareholders at its annual general meeting. The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### **PRINCIPAL ACTIVITIES**

The Group's principal activity in the course of the financial year was to arrange finance for the renting of equipment in Australia and Europe.

There have been no significant changes in the nature of these activities during the year.

### **OPERATING AND FINANCIAL REVIEW**

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 \$738,066 (2006: \$126,183) which includes \$4,195,856 (\$3,352,489 net of income tax) of listing costs.

The period has seen the Group pay for the acquisition of the UK business from its joint venture partner, Halifax Bank of Scotland ("HBOS"). The Group continues to consolidate its position in Australia, UK and Spain with post-rental revenue streams ("inertia") increasing European profitability. Against soft retail trading conditions UK and Spain increased year on year contract volumes by 11% and 26% respectively. Australian volumes increased 53% as a result of improved penetration through existing retail channels and commencement of new relationships including JB HiFi. New Zealand operations opened in October 2007 servicing 15 stores initially.

The Group has successfully established retailer and funder agreements in USA and Italy which will result in commencement of operations in these territories in 2008. France infrastructure remains in place to enable recommencement of operations with the execution of a new retailer agreement. Opportunities to enter other territories are being actively pursued.

### **SIGNIFICANT 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.

On 4 June 2007, ThinkSmart Limited has listed on the Australian Stock Exchange and issued an additional 6,046,512 shares for total consideration of \$13,000,001. This has resulted on a net increase in the value of share capital of \$12,399,807 after capital raising costs, net of tax benefits.

### **DIVIDEND**

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

### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

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.

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Group will continue to execute its strategic plan to grow revenue by increasing business volumes through existing retail partnerships in UK, Spain, Australia and New Zealand and establishing new relationships in USA, Italy, France, and New Zealand. The Group anticipates commencing operations in USA, Italy and France during 2008 with further expansion into Europe planned for 2009 and beyond.

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

**DIRECTORS' INTERESTS**

The relevant interests of each director in the shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	<b>ThinkSmart Limited</b>	
	<b>Number of ordinary shares</b>	<b>Number of options granted over ordinary shares</b>
N Montarello	13,742,732	6,800,000
P Mansell	1,288,192	-
S Penglis	1,314,000	-
D Griffiths	1,463,360	-

**SHARE OPTIONS**

**Options granted to directors and officers of the Company**

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

<b>Directors and Officers</b>	<b>Number of options granted</b>	<b>Exercise price</b>	<b>Expiry date</b>
<b>Officers</b>			
N Barker	160,000	\$1.38	31-Dec-11
N Barker	120,000	\$3.00	31-Dec-11
M Radotic	160,000	\$1.38	31-Dec-11
M Radotic	120,000	\$3.00	31-Dec-11
G Parry	160,000	\$1.38	31-Dec-11
G Parry	120,000	\$3.00	31-Dec-11
J Rozenbroek	160,000	\$1.38	31-Dec-11
J Rozenbroek	120,000	\$3.00	31-Dec-11

All options were granted during the financial year. No options have been granted since the end of the financial year.

**Shares issued as a result of the exercise of options**

During or since the end of the year, the Company has issued ordinary shares as a result of the exercise of options:

<b>Number of shares</b>	<b>Amount paid on each share</b>
560,000	\$0.4375
93,333	\$0.6250

## THINKSMART LIMITED DIRECTORS' REPORT

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### Unissued shares under options

At the date of this report, unissued ordinary shares of the Company under option are:

<b>Number of shares under option</b>	<b>Exercise price of options</b>	<b>Expiry date of options</b>
280,000	\$0.44	31 December 2008
4,000,000	\$1.13	27 August 2008
1,400,000	\$1.38	27 August 2009
1,400,000	\$1.63	27 August 2010
1,026,667	\$0.63	31 December 2010
640,000	\$1.38	31 December 2011
720,000	\$3.00	31 December 2011

All options expire on the earlier of their expiry date or termination of the employee's employment. Further details are included in the remuneration report on 6 to 14.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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 director.

### NON-AUDIT SERVICES

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

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditors is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services are subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG (2006: Deloitte), and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to the auditors for the statutory audit have been disclosed.

**THINKSMART LIMITED**  
**DIRECTORS' REPORT**

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	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Audit services:</b>		
<i>Auditors of the Company:</i>		
Audit and review of financial reports (Australia)	195,198	114,166
Audit and review of financial reports (Overseas)	80,462	26,519
	<u>275,651</u>	<u>140,685</u>
<b>Services other than statutory audit:</b>		
<i>Other assurance services</i>		
Tax	18,132	20,615
Investigating Accountants Report for IPO (Australia)	577,402	-
Other services	3,527	-
	<u>599,061</u>	<u>20,615</u>

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is included in page 19 of the financial report.

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



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P Mansell  
Director  
Perth, 25 February 2008



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of ThinkSmart Limited

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

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

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'D P McComish'.

D P McComish  
*Partner*

Perth

Dated: 25 February 2008

**THINKSMART LIMITED**  
**DIRECTORS' DECLARATION**

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1. In the opinion of the Directors of ThinkSmart Limited (the "Company"):
  - a) The financial statements and notes and the remuneration disclosures that are designated as audited in the Remuneration report of the Directors' report, set out on pages 2 to 76, are in accordance with the Corporations Act 2001, including:
    - I. Giving a true and fair view of the Company's and the Group's financial position as at 31 December 2007 and of their performance, for the financial year ended on that date; and
    - II. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b) The financial report also complies with International Financial Reporting Standards as disclosed in note 2;
  - c) The remuneration disclosures that are designated as audited in the Remuneration report of the Director's report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures, and
  - d) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2007.

Signed in accordance with a resolution of the directors:



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P Mansell  
Director  
Perth, 25 February 2008

**THINKSMART LIMITED**  
**INCOME STATEMENT**

**Income Statement**  
**For the Financial Year Ended 31 December 2007**

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	6(a)	36,354,265	15,677,257	1,500,000	-
Employee benefits expense	6(b)	(10,057,089)	(4,946,464)	-	-
Sales and marketing costs		(10,098,403)	(4,618,734)	(19,661)	-
Occupancy costs		(843,651)	(350,260)	-	-
Communication costs		(541,199)	(203,902)	-	-
Doubtful and bad debts		(247,467)	(105,386)	-	-
Legal and Consulting costs		(507,112)	(194,549)	(107,040)	-
Credit bureau costs		(502,554)	(226,702)	-	-
Corporate development costs		(1,971,953)	(1,317,147)	(1,348)	-
Impairment of intercompany receivable	6(f)	-	-	5,259,676	(1,600,496)
Other expenses	6(g)	(3,326,225)	(2,485,774)	(22,411)	(37,434)
<b>EBITDA before capital listing costs</b>		8,258,611	1,228,339	6,609,216	(1,637,930)
Finance (costs)/benefits	6(e)	(570,225)	38,340	34,141	-
Depreciation expense	6(c)	(439,002)	(249,665)	-	-
<b>EBTA before capital listing costs</b>		7,249,384	1,017,014	6,643,357	(1,637,930)
Amortisation of intangibles	6(d)	(1,132,307)	(199,570)	-	-
Listing costs	6(h)	(4,195,856)	-	(4,195,856)	-
<b>Profit/(Loss) Before Tax</b>		1,921,221	817,444	2,447,501	(1,637,930)
Income tax (expense)/benefit	7	(1,183,155)	(691,261)	450,150	-
<b>Profit/(Loss) for the Year</b>		738,066	126,183	2,897,651	(1,637,930)
<b>Earnings per share</b>					
Basic (cents per share)	33	0.80	0.15		
Diluted (cents per share)	33	0.73	0.13		

The attached notes form an integral part of this Income Statement

**THINKSMART LIMITED**  
**BALANCE SHEET**

**Balance Sheet**  
**As At 31 December 2007**

	Notes	Consolidated		Company	
		2007	2006*	2007	2006
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	24(a)	5,059,229	2,756,194	525,962	-
Trade and other receivables	8	1,721,456	1,199,432	-	-
Inventories	9	63,433	27,185	-	-
Prepayment	10	4,035,396	2,141,624	15,128	-
Other	11	171,487	47,911	10,111	-
<b>Total Current Assets</b>		<b>11,051,001</b>	<b>6,172,346</b>	<b>551,201</b>	<b>-</b>
<b>Non-Current Assets</b>					
Prepayment	12	2,346,693	1,984,551	-	-
Plant and equipment	13	554,775	885,625	-	-
Other financial assets	14	-	-	18,166,772	3,961,658
Intangibles	15	5,488,262	6,133,653	-	-
Goodwill	16	5,284,678	5,955,823	-	-
Deferred tax assets	7	2,304,705	1,218,226	2,269,562	-
<b>Total Non-Current Assets</b>		<b>15,979,113</b>	<b>16,177,878</b>	<b>20,436,334</b>	<b>3,961,658</b>
<b>Total Assets</b>		<b>27,030,114</b>	<b>22,350,224</b>	<b>20,987,535</b>	<b>3,961,658</b>
<b>Current Liabilities</b>					
Trade and other payables	18	5,635,677	5,661,939	5,213	11
Borrowings	19	2,106,572	9,333,958	-	-
Tax payable		2,130,577	60,454	1,556,563	-
<b>Total Current Liabilities</b>		<b>9,872,826</b>	<b>15,056,351</b>	<b>1,561,776</b>	<b>11</b>
<b>Non-Current Liabilities</b>					
Borrowings	20	33,040	2,728,991	-	-
Deferred tax liability	7	1,411,889	1,642,958	111,946	-
Other	21	104,975	171,668	-	-
<b>Total Non-Current Liabilities</b>		<b>1,549,904</b>	<b>4,543,617</b>	<b>111,946</b>	<b>-</b>
<b>Total Liabilities</b>		<b>11,422,730</b>	<b>19,599,968</b>	<b>1,673,722</b>	<b>11</b>
<b>Net (Liabilities)/Assets</b>		<b>15,607,384</b>	<b>2,750,256</b>	<b>19,313,813</b>	<b>3,961,647</b>
<b>Equity/(Deficiency)</b>					
Issued Capital	22	22,242,200	9,842,393	22,242,200	9,842,393
Reserves	23	(471,157)	(190,413)	92,142	37,434
Accumulated losses		(6,163,659)	(6,901,724)	(3,020,529)	(5,918,180)
<b>Total Equity</b>		<b>15,607,384</b>	<b>2,750,256</b>	<b>19,313,813</b>	<b>3,961,647</b>

\* Restated – refer to note 4a.

The attached notes form an integral part of this Balance Sheet

**THINKSMART LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

**Statement of Changes in Equity**  
**for the financial year ended 31 December 2007**

<b>Consolidated</b>	<b>Fully paid ordinary shares</b>	<b>Equity settled employee benefits reserve</b>	<b>Foreign currency translation reserve</b>	<b>Option buy- back reserve *</b>	<b>Accumulated Losses *</b>	<b>Attributable to equity holders of the parent *</b>
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2006	6,723,526	-	-	-	(6,406,835)	316,691
Exchange differences arising on translation of foreign operations	-	-	(227,847)	-	-	(227,847)
Net income recognised directly in equity	-	-	(227,847)	-	-	(227,847)
Adjustment based on finalisation of provisional acquisition accounting	-	-	-	-	-	-
Profit for the period	-	-	-	-	126,183	126,183
Total recognised income and expense	-	-	-	-	126,183	126,183
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	(227,847)	-	(6,901,724)	2,750,256
Balance at 1 January 2007*	9,842,393	37,434	(227,847)	-	(6,901,724)	2,750,256
Exchange differences arising on translation of foreign operations	-	-	(335,452)	-	-	(335,452)
Net income recognised directly in equity	-	-	(335,452)	-	-	(335,452)
Profit for the period	-	-	-	-	738,066	738,066
Total recognised income and expense	-	-	(335,452)	-	738,066	402,614
Recognition of share-based payments	-	54,708	-	-	-	54,708
Issue of shares	12,399,807	-	-	-	-	12,399,807
Option buy-back	-	-	-	-	-	-
Balance at 31 December 2007	22,242,200	92,142	(563,299)	-	(6,163,659)	15,607,384
*: Balance at 31 December 2006 – originally stated	9,842,393	37,434	(227,847)	(621,072)	(9,207,104)	(176,196)
Reclassification of option buy-back	-	-	-	621,072	(621,072)	-
Correction of error (note 4a)	-	-	-	-	2,926,452	2,926,452
Restated balance at 31 December 2006	9,842,393	37,434	(227,847)	-	(6,901,724)	2,750,256

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

**THINKSMART LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

**Statement of Changes in Equity**  
**for the financial year ended 31 December 2007**

<b>Company</b>	<b>Fully paid ordinary shares</b> \$	<b>Equity settled employee benefits reserve</b> \$	<b>Option buy- back reserve</b> \$	<b>Accumulated Losses *</b> \$	<b>Total</b> \$
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	-	(5,918,180)	3,961,647
Balance at 1 January 2007	9,842,393	37,434	-	(5,918,180)	3,961,647
Profit for the period	-	-	-	2,897,651	2,897,651
Total recognised income and expense	9,842,393	37,434	-	(3,020,529)	6,859,298
Recognition of share-based payments	-	54,708	-	-	54,708
Issue of new shares	12,399,807	-	-	-	12,399,807
Balance at 31 December 2007	22,242,200	92,142	-	(3,020,529)	19,313,813
*: Balance at 31 December 2006 – originally stated	9,842,393	37,434	(621,072)	(5,297,108)	3,961,647
Reclassification of option buy-back	-	-	621,072	(621,072)	-
Restated balance at 31 December 2006	9,842,393	37,434	-	(5,918,180)	3,961,647

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

**THINKSMART LIMITED**  
**CASH FLOW STATEMENT**

**Cash Flow Statement**  
**For the Financial Year Ended 31 December 2007**

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		35,832,241	15,307,069	174,103	-
Payments to suppliers and employees		(30,888,194)	(15,162,694)	-	-
Interest received		173,126	111,110	32,050	-
Interest and other costs of finance paid		(214,502)	(170,583)	-	-
Net cash from operating activities	24(b)	4,902,671	84,902	206,153	-
<b>Cash Flows from Investing Activities</b>					
Payments for plant and equipment		(136,556)	(107,615)	-	-
Payment for software development		(456,063)	(467,126)	-	-
Payment for acquisition of RentSmart Limited		(7,882,851)	-	-	-
Acquisition of RentSmart Limited's cash balance		-	2,462	(113)	-
Proceeds from sale of plant and equipment		-	-	-	-
Buy back options held over the parent entity		-	(621,072)	-	-
Net cash from (used in) investing activities		(8,475,470)	(1,193,351)	(113)	-
<b>Cash Flows from Financing Activities</b>					
Hire purchase and lease finance repaid		2,772	12,467	-	-
Borrowings to subsidiary		-	-	(7,733,466)	-
Proceeds from issue of shares		13,000,001	3,118,867	13,000,001	-
Payment of IPO costs		(4,946,950)	-	(4,946,613)	-
Proceeds / (Repayment) of borrowings		(1,424,173)	(720,528)	-	-
Net cash from (used in) financing activities		6,631,650	2,410,806	319,922	-
Net increase in cash and cash equivalents		3,058,851	1,302,357	525,962	-
Cash and cash equivalents at beginning of the financial year		2,000,378	698,021	-	-
Net Cash and cash equivalents at the end of the financial year	24(a)	5,059,229	2,000,378	525,962	-

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

# THINKSMART LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. General Information

ThinkSmart Limited (the “Company”) is a publicly listed company, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise of the Company and its subsidiaries that operate in Australia, United Kingdom, New Zealand, Spain and France. The Group’s principal activity is to arrange finance for renting of equipment in Australia, New Zealand and Europe.

### 2. Basis of Preparation

#### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the Internal Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on 25 February 2008.

#### Basis of measurement

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.

### 3. Significant Accounting Policies

The following significant policies have been consistently applied to all periods presented in these consolidated financial statements, and have been consistently applied by group entities.

#### 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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.

#### 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, 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 AASB 3 ‘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. Any excess is measured in the profit and loss.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### c) 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.

#### d) 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
- Leased computer equipment and software	2.5 to 5 years

Depreciation method, useful lives and residual values are reviewed at each reporting date.

##### *Gains and losses on disposal*

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within “other income” in profit and loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

#### e) 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.

##### *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.

#### f) 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.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### **g) 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.

#### **h) 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.

##### *Insurance prepayment*

In respect to the UK operations, when an equipment insurance policy is issued by Allianz to RentSmart Limited's customers, RentSmart Limited pays the customer's insurance premium to Allianz. RentSmart Limited subsequently collects the insurance premium from the customer on a monthly basis over the life of the rental agreement. The rate of the collection of the insurance premium is applied to recover the prepayment to Allianz and to provide a service fee to RentSmart Limited. Where a policy is cancelled, the unexpired premiums are refunded to RentSmart Limited.

#### **i) Impairment of assets**

##### *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit and loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit and loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **j) Intangible Assets**

##### *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 and Distribution Network 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 recognised are "inertia" and "distribution networks" acquired on the acquisition of RentSmart Limited on 1 December 2006.

##### Inertia Assets

At the conclusion of the initial rental period, the Group is entitled to acquire the equipment from the funders at a nominal value. Inertia represents the expected income streams from the unguaranteed residual interest in equipment on unexpired rental contracts in existence at 1 December 2006. The maximum term of unexpired interest at 1 December 2006 is four years and the intangible asset is amortised over the expected income profile of this revenue stream.

##### Distribution Network Assets

Distribution networks represent 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 expected expiry of the contract, which is 4.5 years.

##### *Funding Agreement*

The contractual rights obtained by the Group under financing agreements entered into with its funding partners constitute intangible assets with finite useful lives. These contract rights are recognised initially at cost and amortised over their expected useful lives (initially contract term or expected period until facility limit is reached – between 5 and 7 years). At each reporting date a review for indicators of impairment is conducted.

## **THINKSMART LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### *Software Development*

Software development relates to the development of the Group's proprietary SmartCheck credit application processing software system. Software development costs are capitalised only up to the point when the software has been tested and is ready for use in the manner intended by management. Therefore software development costs are expensed as incurred.

Software development expenditure is capitalised only if the development costs can be measured reliably, the product process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

The intangible asset is amortised on a straight line basis over its estimated useful life, which is 3 years.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### **k) 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.

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 group of 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.

#### **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) 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.

The group's net obligation in respect of long service leave is the amount of future benefit that employees earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

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.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### *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.

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.

#### **n) 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.

#### **o) 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 2007 this deferred revenue was not considered material.

#### *Unguaranteed Residual Interest in Equipment (inertia income)*

At the conclusion of the initial rental period the consolidated entity is entitled to acquire the equipment from the funders at a nominal value. All risks and rewards of ownership pass to the Group at that point and it has the option to either 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.
- Income earned from sale of equipment  
Where the asset acquired is sold the net sale proceeds are brought to account at the time of the sale.

#### **p) Financial Instruments**

#### *Non-derivative financial instruments*

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

Non-derivative financial instrument is recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the assets. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are recognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(x).

#### Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment losses.

#### Available-for-sale financial assets

The Group's investments in equity and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

#### Financial asset at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value on accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### *Share capital*

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

### **q) 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.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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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.

#### **r) 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.

#### **s) 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.

## **THINKSMART LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### *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.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in foreign currency translation reserve.

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.

#### **t) 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.

#### **u) Corporate Development costs**

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

#### **v) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## **THINKSMART LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **w) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustments is known.

#### **x) Finance income and expenses**

Finance income comprises interest income on funds invested (included available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets and changes in fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend rate.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowings costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

#### **y) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment) which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's geographical segments. The Group's primary format for segment reporting is based on geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### **z) Determination of fair value**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset and liability.

##### *Intangible assets*

The fair value of intangible assets as a result of business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets (refer to note 3(j)).

##### *Investment in equity and debt securities*

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

##### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

#### *Share-based payment transactions*

The fair value of employee stock options is measured using a binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Services and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

#### *Financial guarantees*

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

#### **aa) Adoption of new and revised accounting standards**

At the date of authorisation of the financial report, the following are Standards and Interpretations were in issue but not yet effective, that may be applicable to the Group. The Group has not early adopted any of these standards:

- AASB 8 Operating Segments introduces the “management approach” to segment reporting. AASB 8, which become mandatory for the Group’s 31 December 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Officer in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its geographical segments. The Group has not yet determined the potential effect of the revised standard on the Group’s disclosures.
- Revised 101 Presentation of Financial Statements introduces as a financial statement (formerly “primary” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group’s 31 December 2009 financial statements. The Group has not yet determined the potential effect of the revised standard on the group’s disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group’s 31 December 2009 financial statements. The Group has not yet determined the potential effect of the revised standard on the group’s disclosures.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**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.

Except as described below, in preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2006.

**a) Finalisation of acquisition accounting and correction of error**

During the twelve months ended 31 December 2007 management finalised its provisional determination of intangibles acquired as part of a business combination transaction at 1 December 2006, resulting in a reduction in value of intangible assets attributed to distribution network of \$1,374,933, a reduction in deferred tax liability of \$408,212 and an increase in goodwill of \$966,721.

There has been a positive adjustment in retained earnings as a result of an error in the acquisition accounting at 31 December 2006, the correction of which increases goodwill by \$2,926,452 with an adjustment to retained earnings of \$2,926,452, which includes minority interest of (\$88,734). There was no impact on the current or prior period profit.

The business combination note 31 has been restated to reflect the final determined values and the correction of the error.

**b) 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:

- i) The factors used to determine the company provisions for employee entitlements.
- ii) The valuation of options issued by the company in the absence of a liquid market and volatility factors used in binomial pricing models.

**c) Key sources of estimation uncertainty.**

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant affect on the amount recognised in the financial statements are described in the following notes:

- Note 31 – business combination
- Note 16 – measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 15 – useful lives of intangible assets
- Note 7 – utilisation of tax losses
- Note 22 – measurement of share based payments
- Note 28 and 29 – contingent assets and liabilities

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### 5. Financial Risk Management

##### Overview

The Company and the group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risks, and the management of capital. Further quantitative disclosures are included throughout this financial report.

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

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

The Audit and Risk Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the Group.

##### Credit Risk

Credit risk refers to the risk that a counterparty or customer will default on its contractual obligations resulting in financial loss to the Group and arise principally from the Group's assessment of recoverability from debtors. 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 Group minimises concentrations of credit risk in relation to trade receivables by transferring substantially all credit risks to the respective subsidiaries' funding institution. The day to day management of credit risk is undertaken by ensuring counterparties fall within specific risk criteria prepared by our financiers and the Board.

The Company and Group assess impairment of receivables on an individual basis.

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

##### *Guarantees*

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in note 18.

##### Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

## THINKSMART LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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The Group ensures that it has sufficient cash on demand to meet expected operational expenses. In addition, the Group maintains the following lines of credit:

- Secured overdraft facility of GBP 500,000. Interest would be payable at the rate of 2% above the base rate from Halifax Bank of Scotland.
- Secured bank overdraft facility of \$250,000. Interest would be payable at ANZ's reference rate plus a margin of 0.175%.
- Secured bill acceptance facility of \$950,000. Interest would be payable on bank bill swap rate.
- Other operational facilities are set out in note 24 (c).

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

#### *Currency risk*

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Australian dollar (AUD), but also the Euro (EUR) and Sterling (GBP). The currencies in which these transactions primarily are denominated are AUD, EUR and GBP.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily AUD, but also GBP and EUR. This provides an economic hedge and no derivatives are entered into.

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 considered for hedging by management, 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 (2006: nil)

Intercompany borrowings are denominated in the currency of the lender. Transaction recharges between the companies provides an economic hedge and timing of payments are within the control of the Group to ensure economic viability, as a result no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the management ensures that the Group's net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address the short term imbalances.

#### *Interest rate risk*

The Group has no significant non current borrowings. Exposure to interest rate risk on any future borrowings will be assessed by the Board and where appropriate, the exposure to movement in interest rates may be hedged by entering into interest rate swaps, when considered appropriate by the management and the Board.

#### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management aims to maintain a capital structure that ensures the lowest cost of capital available to the group. Management constantly reviews the capital structure to ensure an increasing return on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return on capital to shareholders, issue new shares or sell assets to reduce debt.

The Board encourages employees to hold shares in the Company. At present employees hold 14.8% of ordinary shares, or just under 23.1% assuming that all outstanding share options vest and/or are exercised. Currently management is discussing alternatives for extending the Group's share option programme beyond key management and other senior employees.

During the year, the Company became publicly listed, and proceeds of the offer were used to fund the acquisition of the remaining 50% interest in RentSmart Limited and listing costs. There was no change in the Group's approach to capital management during the year otherwise.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>6. Profit</b>					
Profit is arrived at after crediting/(charging) the following items:					
<b>a) Revenue</b>					
Distribution income		-	-	1,500,000	-
Funder income		23,488,399	10,650,717	-	-
Income received on sale of equipment		3,420,294	1,683,405	-	-
Rental income		4,321,571	2,110,149	-	-
Insurance income		4,058,586	676,521	-	-
Government grant		149,000	137,000	-	-
Other revenue		916,414	419,465	-	-
		<u>36,354,265</u>	<u>15,677,257</u>	<u>1,500,000</u>	<u>-</u>
<b>b) Employee benefits expense</b>					
Payments to employees		9,082,633	3,847,505	-	-
Payments to Directors of related entities		489,138	481,117	-	-
Share options cost		54,709	37,434	-	-
Provision for employee entitlements		430,610	580,408	-	-
		<u>10,057,089</u>	<u>4,946,464</u>	<u>-</u>	<u>-</u>
<b>c) Depreciation expense</b>					
Depreciation of plant and equipment		165,732	63,973	-	-
Depreciation of leasehold improvements		138,715	12,730	-	-
Depreciation of self funded rentals		11,496	16,767	-	-
Depreciation of web sites		1,949	2,844	-	-
Depreciation of lease equipment & software		121,110	153,351	-	-
		<u>439,002</u>	<u>249,665</u>	<u>-</u>	<u>-</u>
<b>d) Amortisation expense</b>					
Amortisation of software		109,319	30,864	-	-
Amortisation of funding agreement		22,039	-	-	-
Amortisation of distribution network		142,928	38,011	-	-
Amortisation of inertia contracts		825,930	98,604	-	-
Amortisation of intellectual property		32,091	32,091	-	-
		<u>1,132,307</u>	<u>199,570</u>	<u>-</u>	<u>-</u>

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>6. Profit (cont.)</b>					
<b>e) Finance (costs)/benefits</b>					
Interest revenue – other entities		38,723	-	34,382	-
– related parties		29,405	111,110	-	-
Total finance benefits		68,128	111,110	34,382	-
Interest expense – other entities		(236,858)	(4,898)	-	-
– related parties		(285,055)	(32,728)	-	-
Total interest costs		(521,913)	(37,626)	-	-
Finance charges		(116,440)	(35,144)	(241)	-
Total finance benefit/(cost)		(570,225)	38,340	34,141	-
<b>f) Reversal of impairment/ (impairment) of intercompany receivable</b>					
Reversal of impairment/ (impairment) of intercompany receivable	14	-	-	5,259,676	(1,600,496)
<b>g) Other Expenses</b>					
Other expenses		3,326,225	2,485,774	22,411	37,434
Other expenses comprise of other administrative expenses including postage, travel and training. Included in 2007 costs was nil (2006: \$715,783) of fee-for-service charges incurred by Spain and France for the UK operations centre.					
<b>h) Listing cost</b>					
Listing cost		4,195,856	-	4,195,856	-
Costs comprising underwriting fees, and other professional costs arising on the listing of the company's shares have been expensed. Costs directly attributable to the issue of new equity have been deducted from the capital raised.					

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	\$	\$	\$	\$
<b>7. Income Tax</b>				
The major components of income tax expense for the year ended 31 December are:				
<i>Current income tax</i>				
Current income tax charge	2,410,009	60,454	1,586,746	-
<i>Deferred income tax</i>				
Origination and reversal of temporary differences	(1,196,829)	630,807	(1,895,868)	-
Adjustment for prior period	(30,025)	-	(141,028)	-
Income tax expense/ (benefit) reported in income statement	1,183,155	691,261	(450,150)	-

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:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	\$	\$	\$	\$
Accounting profit/(loss) before tax	1,921,221	817,444	2,447,501	(1,637,930)
At the statutory income tax rate of 30%	576,366	245,234	734,250	(491,379)
Effect of tax rates in foreign jurisdictions	27,740	-	-	-
Non deductible expenses - corporate development	88,986	160,354	89,390	-
- impairment gain/(losses)	-	-	(1,577,903)	491,379
- listing cost	415,390	-	415,390	-
- other	154,760	-	29,751	-
Overseas tax losses recognised	(50,062)	59,004	-	-
Adjustments in respect of prior periods	(30,025)	226,669	(141,028)	-
Income tax expense/(benefit) reported in the income statement	1,183,155	691,261	(450,150)	-
<b>Income tax recognised directly in equity</b>				
Listing cost	150,902	-	150,902	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**7. Income Tax (cont.)**

<b>Deferred tax asset</b>	<b>Consolidated</b>				
	1 January 2007	Charged to income	Charged to equity	Other	31 December 2007
Trade debtors	-	37,478	-	-	37,478
Accruals	-	39,000	-	-	39,000
Tax losses	1,122,949	(1,122,949)	-	-	-
Corporate development cost	-	451,056	-	-	451,056
Sinking fund	-	802,768	-	-	802,768
Employee entitlements	103,229	40,628	-	-	143,857
Listing cost	-	674,694	120,721	-	795,415
Other	(7,953)	43,084	-	-	35,131
<b>Total</b>	<b>1,218,226</b>	<b>965,759</b>	<b>120,721</b>	<b>-</b>	<b>2,304,705</b>

<b>Deferred tax liability</b>	<b>Consolidated</b>				
	1 January 2007	Charged to income	Charged to equity	Other	31 December 2007
Prepayments	1,659	4,626	-	-	6,285
Deals awaiting settlement	13,629	33,003	-	-	46,632
Intangible assets	1,586,390	(285,992)	-	-	1,300,398
Government grant	41,280	(1,050)	-	-	40,230
Other debtors	-	18,344	-	-	18,344
<b>Total</b>	<b>1,642,958</b>	<b>(231,069)</b>	<b>-</b>	<b>-</b>	<b>1,411,889</b>

<b>Deferred tax asset</b>	<b>Consolidated</b>				
	31 December 2005	Charged to income	Charged to equity	Other	31 December 2006
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)
<b>Total</b>	<b>734,327</b>	<b>(644,462)</b>	<b>-</b>	<b>1,128,361</b>	<b>1,218,226</b>

<b>Deferred tax liability</b>	<b>Consolidated</b>				
	31 December 2005	Charged to income	Charged to equity	Other	31 December 2006
Prepayments	-	1,659	-	-	1,659
Deals awaiting settlement	12,215	1,414	-	-	13,629
Inertia and distribution network Adjustment based on finalisation of provisional acquisition accounting	-	(58,008)	-	2,052,610	1,994,602
Government grant	-	41,280	-	(408,212)	(408,212)
<b>Total</b>	<b>12,215</b>	<b>(13,655)</b>	<b>-</b>	<b>1,644,398</b>	<b>1,642,958</b>

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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<b>Deferred tax asset</b>	<b>Company</b>				
	31 December 2006	Charged to income	Charged to equity	Other	31 December 2007
Listing cost	-	674,694	120,721	-	795,415
Sinking fund	-	802,756	-	-	802,756
Corporate development cost	-	451,056	-	-	451,056
Employee entitlements	-	181,335	-	-	181,335
Other	-	39,000	-	-	39,000
<b>Total</b>	<b>-</b>	<b>2,148,841</b>	<b>120,721</b>	<b>-</b>	<b>2,269,562</b>

<b>Deferred tax liability</b>	<b>Company</b>				
	31 December 2006	Charged to income	Charged to equity	Other	31 December 2007
Prepayments	-	4,539	-	-	4,539
Deals awaiting settlement	-	46,632	-	-	46,632
Others	-	60,775	-	-	60,775
<b>Total</b>	<b>-</b>	<b>111,946</b>	<b>-</b>	<b>-</b>	<b>111,946</b>

**Tax Consolidation**

ThinkSmart Ltd and its 100% owned Australian resident subsidiaries have not formed a tax consolidated group as at 31 December 2007

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>8. Trade and other receivables</b>					
Trade receivables (i)		1,843,253	1,040,079	-	-
Allowance for doubtful debts		(265,704)	-	-	-
Sundry debtors		143,907	159,353	-	-
		<u>1,721,456</u>	<u>1,199,432</u>	-	-
(i) No interest is charged on trade receivables. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.					
<b>9. Inventories</b>					
Promotional stock on hand		31,701	27,185	-	-
Rental asset inventory		31,732	-	-	-
		<u>63,433</u>	<u>27,185</u>	-	-
<b>10. Prepayment - current</b>					
Insurance prepayment	3(h)	2,638,579	1,613,052	-	-
Retailer marketing prepayment		670,651	293,461	-	-
Other prepayment		726,166	235,111	15,128	-
		<u>4,035,396</u>	<u>2,141,624</u>	<u>15,128</u>	-
<b>11. Other current assets</b>					
Deals awaiting settlement		155,441	45,431	-	-
Other		16,046	2,480	10,111	-
		<u>171,487</u>	<u>47,911</u>	<u>10,111</u>	-
<b>12. Prepayment – non current</b>					
Insurance prepayment	3(h)	2,346,693	1,984,551	-	-
		<u>2,346,693</u>	<u>1,984,551</u>	-	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13. Plant & Equipment**

<b>Consolidated</b>	Plant & Equipment \$	Leasehold improvements \$	Self funded rentals \$	Web Sites \$	Lease equipment & software \$	Total * \$
<b>Gross Carrying Amount</b>						
<b>Cost or deemed cost</b>						
Balance at 1 Jan 2006	878,221	275,039	156,094	76,450	1,776,569	3,162,373
Acquisitions through business combinations	204,040	227,933	-	-	-	431,973
Net foreign currency translation differences	28,064	-	-	-	-	28,064
Additions	12,314	17,515	-	-	77,785	107,614
Disposals			(6,136)			(6,136)
Balance at 31 Dec 2006	1,122,639	520,487	149,958	76,450	1,854,354	3,723,888
Net foreign currency translation differences	(18,062)	(19,974)	-	-	-	(38,036)
Additions	33,347	11,800	-	-	91,409	136,556
Disposals	-	-	-	-	-	-
Balance at 31 Dec 2007	1,137,924	512,313	149,958	76,450	1,945,763	3,822,408
<b>Accumulated Depreciation</b>						
Balance at 31 December 2005	(731,514)	(244,612)	(111,353)	(69,341)	(1,467,246)	(2,624,066)
Net foreign currency translation differences	28,064	1,744	-	-	-	29,808
Disposals	-	-	5,658	-	-	5,658
Depreciation expense	(63,973)	(12,730)	(16,767)	(2,844)	(153,351)	(249,665)
Balance at 31 Dec 2006	(767,423)	(255,598)	(122,462)	(72,185)	(1,620,597)	(2,838,265)
Net foreign currency translation differences	5,145	4,490				9,634
Disposals						
Depreciation expense	(165,732)	(138,715)	(11,496)	(1,949)	(121,111)	(439,003)
Balance at 31 Dec 2007	(928,011)	(389,823)	(133,958)	(74,134)	(1,741,708)	(3,267,634)
<b>Net Book Value</b>						
At 31 Dec 2006	355,216	264,889	27,498	4,265	233,757	885,625
At 31 Dec 2007	209,913	122,490	16,000	2,316	204,055	554,774

\* Software assets of \$436,430 in the 31 December 2006 financial statement have been reclassified as intangibles (see note 15).

ThinkSmart Limited, the parent company holds no plant & equipment.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

		% of Equity		Consolidated		Company	
		2007	2006	2007	2006	2007	2006
				\$	\$	\$	\$
<b>14. Other Financial Assets</b>							
Interest in Subsidiaries	Country of Incorporation						
RentSmart Unit Trust (ii)	Australia	100%	100%	-	-	23,526	23,526
RentSmart Pty Ltd	Australia	100%	100%	-	-	54,720	12
RentSmart Limited	UK (i)	100%	100%	-	-	-	-
SmartCheck Ltd	Australia	100%	100%	-	-	-	-
RentSmart Pty Ltd	New Zealand	100%	100%	-	-	-	-
RentSmart Pte Ltd	Singapore	100%	100%	-	-	-	-
ThinkSmart Europe Ltd	UK	100%	100%	-	-	-	-
ThinkSmart Financial Services Ltd	UK	100%	100%	-	-	-	-
SmartCheck Ltd	UK	100%	100%	-	-	-	-
ThinkSmart Insurance Administration Ltd	UK	100%	100%	-	-	-	-
SmartCheck Finance Spain SL(iii)	Spain	100%	100%	-	-	-	-
SmartPlan Spain SL (iii)	Spain	100%	100%	-	-	-	-
ThinkSmart France SARL	France	100%	100%	-	-	-	-
ThinkSmart Sweden AB	Sweden	100%	100%	-	-	-	-
ThinkSmart Italy Srl (iv)	Italy	100%	100%	-	-	-	-
ThinkSmart Inc	USA	100%	100%	-	-	113	-
Investment in controlled entities				-	-	78,359	23,538
Loan to ThinkSmart Europe Ltd				-	-	7,733,466	-
Loan to RentSmart Unit Trust (ii)				-	-	10,354,947	9,197,796
Provision for diminution (ii)				-	-	-	(5,259,676)
				-	-	18,166,772	3,961,658

Investments in subsidiaries are measured at cost. The ultimate controlling entity in Australia is ThinkSmart Ltd.

The receivable is payable on demand and attracts no interest.

(i) ThinkSmart Limited had a 50% interest in RentSmart Limited prior to 1 December 2006 when it acquired the remaining 50% interest resulting in it becoming a wholly owned subsidiary. It accounted for its interest on an equity accounting basis until 1 December 2006 and thereafter on a consolidated basis in the statutory financial statements. Equity accounting was suspended in the 2004 financial year as the investment in RentSmart Limited had been fully offset by the Group's share of operating losses and no further losses had been recognised in the 2005 and 2006 financial years.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**14. Other Financial Assets (cont.)**

(ii) At 31 December 2007, ThinkSmart Limited reassessed the operations of the subsidiaries and reviewed the future operations and budgeted cash flow of RentSmart Unit Trust. ThinkSmart Limited performed impairment testing on its loan receivable from RentSmart Unit Trust. The recoverable amount of the cash-generating unit (RentSmart Unit Trust) was estimated based on its value in use. Based on the assessment during the year ended 31 December 2006, the carrying amount of the loan receivable was lower than its recoverable amount, and an additional impairment loss of \$1,600,496 was recognised, which brought the total provision for diminution to \$5,259,676. During the year ended 31 December 2007, ThinkSmart Limited reassessed the recoverable amount of the loan receivable, and \$5,259,676 of the provision in diminution of \$5,259,676 was reversed.

The estimate of value in use was determined using a discount rate of 9.75%.

The impairment loss and subsequent reversal was recognised in the income statement and was allocated as follows:

	<b>Carrying amount</b>	<b>Company Impairment loss in 2006</b>	<b>Reversal in 2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loan to RentSmart Unit Trust	9,197,796	5,259,676	(5,259,676)

(iii) On the 28 December 2007, ThinkSmart Finance Spain SL changed its name to SmartCheck Finance Spain SL.

(iv) On the 9 January 2008, ThinkSmart Italy Srl has changed its name to SmartCheck Italy Srl.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Consolidated					Total
	Funding Agreements	Software *	Distribution network	Intellectual Property	Inertia Contracts	
	\$	\$	\$	\$	\$	\$
<b>15. Intangible Assets</b>						
<b>Gross carrying amount</b>						
<b>At cost</b>						
Balance at 1 January 2006	-	15,232	-	641,816	-	657,048
Additions	-	467,126	-	-	-	467,126
Acquisitions through business combinations	-	-	2,052,610	-	4,803,652	6,856,262
Adjustment based on finalisation of provisional accounting	-	-	(1,374,933)	-	-	(1,374,933)
Effect of movement in exchange rate	-	-	(10,040)	-	(70,675)	(80,715)
Balance at 31 December 2006	-	482,358	667,637	641,816	4,732,977	6,524,788
Addition	393,979	456,063	-	-	-	850,041
Effect of movement in exchange rate	-	-	(54,779)	-	(388,786)	(443,565)
Balance at 31 December 2007	393,979	938,421	612,858	641,816	4,344,191	6,931,264
<b>Accumulated amortisation and impairment</b>						
Balance at 1 January 2006	-	(15,064)	-	(176,501)	-	(191,565)
Amortisation expense	-	(30,864)	(38,011)	(32,091)	(98,604)	(199,570)
Balance at 31 December 2006	-	(45,928)	(38,011)	(208,592)	(98,604)	(391,135)
Amortisation expense	(22,039)	(109,319)	(142,928)	(32,091)	(825,930)	(1,132,307)
Effect of movement in exchange rate	-	-	33,401	-	47,039	80,439
Balance at 31 December 2007	(22,039)	(155,247)	(147,539)	(240,683)	(877,495)	(1,443,002)
<b>Net book value</b>						
At 31 December 2006	-	436,430	629,626	433,224	4,634,373	6,133,653
At 31 December 2007	371,940	783,174	465,320	401,133	3,466,695	5,488,262

\* This balance was reported as plant and equipment in the 31 December 2006 financial report.

The company did not hold any intangible assets during the current or comparative reporting period.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Notes	Consolidated		Company	
		2007 \$	2006 * \$	2007 \$	2006 \$
<b>16. Goodwill</b>					
Balance at beginning of financial year		5,955,823	-	-	-
Amount recognised from business combinations during the period (i)		-	5,075,674	-	-
Adjustment as a result of finalisation of acquisition accounting	4 (a)	-	966,721	-	-
Effect of movement in exchange rate		(671,145)	(86,572)	-	-
Balance at end of financial year		5,284,678	5,955,823	-	-

\* Restated – refer to note 4 (a).

**Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to RentSmart Limited, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The goodwill arose on the acquisition of RentSmart Limited (note 31).

The recoverable amount of RentSmart Limited cash-generating unit was based on its value in use, and was determined by using future cash flows generated from the continuing use of the unit. Cash flows used to calculate value in use is projected based on actual operating results and the three year business plan. The recoverable amount of the unit was determined to be higher than the carrying amount, therefore no impairment of goodwill is required.

Value in use is determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on the actual operating results and the 3 year business plan.
- The pre tax discount rate of 9.75% was applied in determining the recoverable amount of the units.

**17. Assets Pledged as Security**

In accordance with the security arrangements of liabilities, as disclosed in notes 19 and 20 to the financial statements, effectively all non-current assets of RentSmart Limited have been pledged as security, which totals to \$8,067,446. The consolidated entity does not hold title to the equipment under finance lease pledged under security.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>18. Trade and other payables</b>					
Trade and other payables (i)		3,270,443	4,359,846	5,213	11
Product plan		1,209,475	875,141	-	-
Other payables		-	* -	-	-
GST Payable		676,237	77,725	-	-
Employee entitlement:					
Annual leave		304,909	** 223,356	-	-
Long service leave		171,321	** 124,500	-	-
Other		3,294	**1,372	-	-
		<u>5,635,677</u>	<u>5,661,939</u>	<u>5,213</u>	<u>11</u>

\* This balance was reported as \$7,746,121 in the 31 December 2006 financial statement, which has been reclassified to current borrowings in note 19.

\*\* This balance was reported in the provisions note in the 31 December 2006 financial statement.

(i) Trade liabilities are normally settled on 30 day terms.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

The Company has guaranteed the bank loans of two subsidiaries. Under the terms of the financial guarantee contracts, the Company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when fall due.

Terms and face values of the liabilities guaranteed were as follows:

	Year of Maturity	2007 Face Value	2006 Face Value
Bank loan of a subsidiary	2008	2,039,891	3,173,164
Performance guarantee of a subsidiary	-	3,200,000	-
Fair value of guarantee		-	-

The method used in determining fair value of these guarantees has been disclosed in note 3 determination of fair values.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>19. Current Borrowings</b>				
Bank Overdraft (i)	-	755,816	-	-
Term loans (iv)	2,039,891	790,123	-	-
Hire purchase and lease liabilities (ii)	66,681	41,898	-	-
Other payables (iii)	-	7,746,121	-	-
	<u>2,106,572</u>	<u>9,333,958</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. If the overdraft is exceeded, an additional 4% interest is payable. 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 25).
- (iii) Amount payable to Halifax Bank of Scotland on or before 20 June 2007 to settle the purchase of its 50% share in RentSmart Limited (UK). The amount 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.

This balance was reported in the trade and other payable note in the 31 December 2006 financial statement.

- (iv) The \$2,039,891 fixed term loan is denominated in Sterling and 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 for the period of the loan are \$556,335 on 31 March 2008, \$741,779 on 30 June 2008 and \$741,777 on 30 September 2008. There is no non-current term loan payable as at 31 December 2007.

**20. Non- Current Borrowings**

Hire purchase and lease liabilities (i)	33,039	55,050	-	-
Term loans (ii)	-	2,673,941	-	-
	<u>33,039</u>	<u>2,728,991</u>	-	-

The carrying amount of the borrowings recorded in the financial statements approximate their aggregate fair values.

- (i) The hire purchase and lease liabilities are secured by a charge over the respective assets (refer note 25). As at balance date, the controlled entity had hire purchase and finance leases with an average term of 3 years.
- (ii) Refer to note 19 (iv)

**21. Other – non current payable**

Product Plan (i)	104,976	171,668	-	-
	<u>104,976</u>	<u>171,668</u>	-	-

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

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**22. Issued Capital**

During the year, the board has made a resolution and authorised the subdivision of the shares with the ratio of 1:4. Consequently, fully paid ordinary shares in the Company as at 31 December 2006 of 22,245,913 is converted to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO.

**(a) Issued and Paid up Capital**

88,983,652 Ordinary Shares fully paid (2006: 22,245,913)	22,242,200	9,842,393	22,242,200	9,842,393
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	<b>Company</b>		<b>Company</b>	
	<b>2007</b>		<b>2006</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
<i>Fully Paid Ordinary Shares</i>				
Balance at beginning of the financial year	22,245,913	9,842,393	20,333,336	6,723,526
Restated opening balance as a result of share split	88,983,652	9,842,393	20,333,336	6,723,526
Issue of new shares following exercise of options	-	-	1,912,577	3,118,867
Issue of new shares in ThinkSmart Ltd	6,046,512	12,399,807	-	-
Balance at end of the financial year	95,030,164	22,242,200	22,245,913	9,842,393

A total of 6,046,512 additional shares were issued on 1 June 2007 for a total consideration of \$13,000,001 resulting in a net increase in the value of share capital of \$12,399,807 after capital raising costs, net of tax benefit.

Ordinary Shares entitle the holder to participate in dividends and the proceeds on winding up the Company in proportion to the number of and amount paid on the Shares held.

On a show of hands, every holder of Ordinary Shares present in the meeting in person or by proxy, is entitled to one vote, and upon a poll Share is entitled to one vote.

The Company does not have authorised capital or par value in respect to its issued shares.

**(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 previous financial year. The balance lapsed without being exercised. No Rights Issue options were issued and exercised in 2007.

**(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 previous financial year. The balanced lapsed without being exercised. No Convertible Notes options were issued and exercised in 2007.

**(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. Executive options are disclosed in note 22(b)(v).

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**22. Issued Capital (cont.)**

**(b) Share Options (cont.)**

**(iv) Halifax Bank of Scotland Option**

In 2006, 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. No Halifax Bank of Scotland options were issued and exercised in 2007.

**(v) Employee Options**

During the year, the board has made a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO. Consequently, the options are split in accordance with the share split.

The following options were issued over ordinary fully paid shares:

After the share split

- 840,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$0.4375, vesting and exercisable on 1 January 2008 exercisable until 31 December 2008.
- 1,400,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$0.625, vesting and exercisable on 1 January 2008 exercisable until 31 December 2010.
- 4,000,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$1.125, vesting and exercisable on 28 August 2007 exercisable until 27 August 2008
- 1,400,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$1.375, vesting and exercisable on 28 August 2008 exercisable until 27 August 2009.
- 1,400,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$1.625, vesting and exercisable on 28 August 2009 exercisable until 27 August 2010.
- 640,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$1.38, vesting and exercisable on 1 January 2009 exercisable until 31 December 2011.
- 720,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$3.00, vesting and exercisable on 1 January 2009 exercisable until 31 December 2011.

Before the share split

- 210,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$1.75, vesting and exercisable on 1 January 2008 exercisable until 31 December 2008.
- 350,000 options over ordinary shares were issued 5 January 2006 and exercisable at \$2.50, vesting and exercisable on 1 January 2008 exercisable until 31 December 2010.
- 1,000,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$4.50, vesting and exercisable on 28 August 2007 exercisable until 27 August 2008
- 350,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$5.50, vesting and exercisable on 28 August 2008 exercisable until 27 August 2009.
- 350,000 options over ordinary shares were issued 28 August 2006 and exercisable at \$6.50, vesting and exercisable on 28 August 2009 exercisable until 27 August 2010.
- 160,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$5.50, vesting and exercisable on 1 January 2009 exercisable until 31 December 2011.
- 180,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$12.00, vesting and exercisable on 1 January 2009 exercisable until 31 December 2011.

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 one 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**

**22. Issued Capital (cont.)**

**(b) Share Options**

**(v) Employee Options**

Below are options that were issued during the year:

<b>Options series issued in 2007</b>	<b>Number</b>	<b>Grant date</b>	<b>Vesting date</b>	<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Fair value at grant date</b>
<u>After the split</u>						
(1) Employee options	640,000	17/04/2007	1/01/2009	31/12/2011	\$1.38	\$0.03
(2) Employee options	720,000	17/04/2007	1/01/2009	31/12/2011	\$3.00	\$0.004
<u>Before the split</u>						
(1) Employee options	160,000	17/04/2007	1/01/2009	31/12/2011	\$5.50	\$0.12
(2) Employee options	180,000	17/04/2007	1/01/2009	31/12/2011	\$12.00	\$0.016
<b>Options series issued in 2006</b>	<b>Number</b>	<b>Grant date</b>	<b>Vesting date</b>	<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Fair value at grant date</b>
(1) Employee options	210,000	05/01/2006	1/01/2008	31/12/2008	\$1.75	\$0.23
(2) Employee options	350,000	05/01/2006	1/01/2008	31/12/2010	\$2.50	\$0.26
(3) Executive options	1,000,000	28/08/2006	28/08/2007	27/08/2008	\$4.50	\$0.01
(4) Executive options	350,000	28/08/2006	28/08/2008	27/08/2009	\$5.50	\$0.05
(5) Executive options	350,000	28/08/2006	28/08/2009	27/08/2010	\$6.50	\$0.02

The weighted average fair value of the share options granted during the financial year is \$0.0162 (2006: After split \$0.0175, 2006: Before split \$0.07). 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.

	<b>After Split</b>		<b>Before Split</b>	
	<b>(1) Employee options</b>	<b>(2) Employee options</b>	<b>(1) Employee options</b>	<b>(2) Employee options</b>
<b><u>Issued in 2007</u></b>				
Fair value at grant date	\$0.03	\$0.004	\$0.12	\$0.016
Grant date share price	\$0.44	\$0.44	\$1.75	\$1.75
Exercise price	\$1.38	\$3.00	\$5.50	\$12.00
Expected volatility	43.0%	43.0%	43.0%	43.0%
Option life (days)	1,237	1,237	1,237	1,237
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	5.95%	5.95%	5.95%	5.95%

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**22. Issued Capital (cont.)**

**(b) Share Options**

**(v) Employee Options**

	(1) Employee options	(2) Employee options	(3) Executive options	(4) Executive options	(5) Executive options
<b>Issued in 2006</b>					
Fair value at grant date	\$0.23	\$0.26	\$0.01	\$0.05	\$0.02
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:

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	2,260,000	\$4.40	1,000,000	\$1.75
Restated opening balance as a result of share split	9,040,000	\$1.10	1,000,000	\$1.75
Granted during the financial year	1,360,000	\$2.24	2,260,000	\$4.40
Forfeited during the financial year	(280,000)	\$0.63	-	-
Exercised during the financial year	-	-	(1,000,000)	\$1.75
Expired during the financial year	-	-	-	-
Balance at the end of financial year	10,120,000	\$1.27	2,260,000	\$4.40
Exercisable at end of the financial year	4,000,000	-	-	-

The options outstanding at 31 December 2007 have an exercise price in the range of \$0.4375 to \$3.00 and a weighted average contractual life of 1.81 years.

No share options were exercised during the year (2006: 1,000,000).

The following is the total expense recognised for the period arising from share-based payment transactions.

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Share options granted in 2006 – equity settled	-	37,434	-	37,434
Share option granted in 2007 – equity settled	54,709	-	-	-
Total expense recognised as employee costs	54,709	37,434	-	37,434

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**22. Issued Capital (cont.)**

**(c) Dividends**

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>23. Reserves</b>				
Equity settled employee benefits reserve (i)	92,142	37,434	92,142	37,434
Foreign currency translation reserve (ii)	(563,299)	(227,847)	-	-
	<u>(471,157)</u>	<u>(190,413)</u>	<u>92,142</u>	<u>(37,434)</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 22(b)(v) to the financial statements.
- (ii) The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**24. 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	5,059,229	2,756,194	525,962	-
- overdraft	-	755,816	-	-
	<u>5,059,229</u>	<u>2,000,378</u>	<u>525,962</u>	<u>-</u>

In 2006, the Group acquired control of the UK business. The cash payable of \$7,746,121 to the third party arising from this transaction was paid in 2007.

The Group's exposure to interest rate and sensitivity analysis of the financial assets and liabilities are discussed in note 30.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**24. Notes to the Cash Flow Statement (cont.)**

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>(b) Reconciliation of the profit /(loss) for the year to net cash flows from operating activities:</b>				
Profit/(loss) after tax	738,066	126,183	2,897,651	(1,637,930)
Depreciation	439,003	249,665	-	-
Amortisation	1,132,307	199,570	-	-
(Profit)/loss on disposal of plant and equipment	-	477	-	-
Provision for doubtful debts	265,704	105,386	-	-
Provision for employee entitlements	130,296	71,153	-	-
Equity settled share based payment	54,708	37,434	-	37,434
Distribution income	-	-	(1,500,000)	-
IPO cost recognised as financing activity	4,195,856	-	4,195,856	-
Unrealised foreign exchange (gain)/loss	91,671	-	-	-
Foreign exchange (gains)/losses – investment in RentSmart Limited	-	(285,719)	-	-
Movement in loan dimunition	-	-	(5,259,676)	1,600,496
<b>(Increase) / decrease in assets:</b>				
Trade receivables	(787,728)	(449,661)	(10,114)	-
Prepayments	(2,255,914)	(454,574)	(15,128)	-
Deferred tax asset	(935,579)	560,901	(2,118,662)	-
Other Assets	(123,576)	(44,691)	342,512	-
Rental asset inventory	(36,248)	74,812	-	-
<b>Increase / (decrease) in liabilities:</b>				
Trade and other creditors	221,743	(181,399)	5,202	-
Provision for income tax	2,070,123	60,454	1,556,566	-
Deferred tax liability	(231,069)	-	111,946	-
Other payable	(66,692)	14,911	-	-
Net cash from operating activities	4,902,671	84,902	206,153	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**24. Notes to the Cash Flow Statement (cont.)**

**(c) Financing facilities**

Secured bank overdraft facility  
reviewed annually and payable at call:

- amount used	-	755,816	-	-
- amount unused	1,383,273	728,752	-	-
	1,383,273	1,484,568	-	-

Hire purchase and/or leasing facilities:

- amount used	99,720	96,948	-	-
- amount unused	242,098	201,884	-	-
	341,818	298,832	-	-

Secured bill acceptance facility:

- amount used	-	-	-	-
- amount unused	950,000	1,011,510	-	-
	950,000	1,011,510	-	-

Interest rate swap facility:

- amount used	-	-	-	-
- amount unused	200,000	200,000	-	-
	200,000	200,000	-	-

Other finance facilities (business credit  
card, payroll facility, term loan, multi-  
option facility):

- amount used	2,131,891	3,464,064	-	-
- amount unused	853,000	500,000	-	-
	2,984,891	3,964,064	-	-
<b>Total Financing Facility</b>	<b>5,859,982</b>	<b>6,958,974</b>	<b>-</b>	<b>-</b>

The total financing facility of \$5,859,982 identified above is reviewed annually and secured over the assets of the group.

**(d) Non-cash financing transactions**

The consolidated entity entered into no non-cash finance transactions during the period (2006: Nil).

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**25. 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		
		Future minimum lease payments	Interest \$	Present value of minimum lease payments \$
<b>Finance lease liabilities</b>		\$		
<b><u>31 December 2007</u></b>				
No later than 1 year		74,185	7,504	66,681
Later than 1 year and not later than 5 years		37,060	4,021	33,039
More than 5 years		-	-	-
		111,245	11,525	99,720
<b><u>31 December 2006</u></b>				
No later than 1 year		46,616	4,718	41,898
Later than 1 year and not later than 5 years		60,781	5,731	55,050
More than 5 years		-	-	-
		107,397	10,449	96,948

The carrying amounts recorded in the financial statements approximate their aggregate net fair values.

The Company has no finance lease liabilities.

**Operating Leases – Leasing Arrangements**

Operating leases relate to office facilities with lease terms of between 1 and 6 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	
	2007 \$	2006 \$	2007 \$	2005 \$
Non-cancellable operating lease payments:				
No later than 1 year	771,353	563,112	-	-
Later than 1 year and not later than 5 years	4,059,887	-	-	-
Later than 5 years	-	-	-	-
	4,831,240	563,112	-	-

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

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**26. Segment Information**

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

<b>Primary Segment Reporting Geographical segments</b>	<b>Europe</b>		<b>Australasia</b>		<b>Elimination</b>		<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Total external revenues	20,108,230	4,209,336	16,246,035	11,467,921	-	-	36,354,265	15,677,257
Intersegment revenue	-	-	48,311	50,317	(48,311)	(50,317)	-	-
Total segment revenue	<u>20,108,230</u>	<u>4,209,336</u>	<u>16,294,346</u>	<u>11,518,238</u>	<u>(48,311)</u>	<u>(50,317)</u>	<u>36,354,265</u>	<u>15,677,257</u>
Segment results	4,802,664	287,627	8,648,903	512,157	(5,307,827)	1,600,496	8,143,740	2,400,280
Unallocated expenses							(2,026,663)	(1,582,836)
							<u>6,117,077</u>	<u>817,444</u>
Capital raising cost							(4,195,856)	-
Income tax expense							<u>(1,183,155)</u>	<u>(691,261)</u>
Profit for the period							<u>738,066</u>	<u>126,183</u>
Segment assets	17,617,608	14,112,434	6,745,821	6,586,340			24,363,428	20,698,774
Unallocated assets							<u>2,666,685</u>	<u>1,651,450</u>
Total assets							<u>27,030,114</u>	<u>22,350,224</u>
Segment liabilities	6,315,869	13,724,952	1,339,484	4,171,604			7,655,353	17,896,556
Unallocated liabilities							<u>3,767,377</u>	<u>1,703,412</u>
Total liabilities							<u>11,422,730</u>	<u>19,599,968</u>
Capital expenditure	<u>41,140</u>	<u>193,061</u>	<u>95,417</u>	<u>105,402</u>			<u>136,557</u>	<u>298,463</u>
Depreciation	<u>263,605</u>	<u>25,563</u>	<u>175,397</u>	<u>224,102</u>			<u>439,002</u>	<u>249,665</u>
Amortisation of intangible assets	<u>968,858</u>	<u>136,615</u>	<u>163,448</u>	<u>62,955</u>			<u>1,132,307</u>	<u>199,570</u>

The secondary segment reporting is business segment. As the Group only operates in one business segment, the Group's consolidated primary segment report reflects the business segment report.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>27. Remuneration of auditors</b>				
<b>Audit services:</b>				
<i>Auditors of the Company:</i>				
Audit and review of financial reports (Australia)	195,189	114,166	56,469	-
Audit and review of financial reports (Overseas)	80,462	26,519	-	-
	<u>275,651</u>	<u>140,685</u>	<u>56,469</u>	<u>-</u>
<b>Services other than statutory audit:</b>				
<i>Other assurance services</i>				
Tax	18,132	20,615	-	-
Investigating Accountants Report for IPO (Australia)	577,402	-	577,402	-
Other services	3,527	-	1,425	-
	<u>599,061</u>	<u>20,615</u>	<u>578,827</u>	<u>-</u>

The Group's auditors are KPMG in 2007 and Deloittes in 2006.

**28. Commitments and Contingent Liabilities**

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

**29. Contingent Inertia Assets**

Under the Group's accounting policy (note 3(o)), inertia revenue is not recognised until the conclusion of the initial rental period. At this point, the Group is entitled to acquire the equipment from the funders at a nominal value, and the equipment can be disposed of, or continue to be rented to third parties.

The Group does not have control over these future revenue streams and accordingly the revenue is not brought to account until it is received.

A conservative estimate of its realisable value has been made by estimating expected sales proceeds through the least profitable sales channel and public auction. The after-tax cash flows, calculated from rental contracts in existence at 31 December 2007, are discounted using appropriate risk factors. The estimated value of future cash flows is \$10,047,975(2006: \$4,304,581), representing the undiscounted pre-tax value of assets as determined by reference to auction sales history)

At 1 December 2006, the Group acquired RentSmart Limited. Inertia income of \$4,803,652 was recognised as an intangible asset as part of the business combination. At 31 December 2007, this asset is carried at amortised cost of \$3,466,695. This inertia intangible is not included in the contingent asset disclosed above.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**30. Financial Instruments**

**30 (a) Interest rate risk**

Profile

At the reporting date, the interest rate profile of the Company's and the Group's interest-bearing financial instrument were:

	Note	Consolidated Carrying amount		Company Carrying amount	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>Fixed rate instruments</b>					
Cash and cash equivalent		1,086,778	-	-	-
Financial asset		1,086,778	-	-	-
<b>Variable rate instruments</b>					
Cash and cash equivalent		3,972,451	2,756,194	525,962	-
Financial asset		3,972,451	2,756,194	525,962	-
Bank overdraft		-	755,816	-	-
Term loan		2,039,891	3,464,064	-	-
Other payable		-	7,746,121	-	-
Financial liability		2,039,891	11,966,001	-	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**30 (a) Interest rate risk**

Sensitivity analysis

*Fixed rate instruments*

The Group has cash on term deposits, which reprices every 30 days.

*Variable rate instruments*

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The Group does not have derivative instruments, therefore a change in interest rates at the reporting date would not affect equity.

A change in 1% in interest rates would have increased or decreased the Group's profit by \$10,871 (2006: \$6,389) and the Company's profit by \$1,787 (2006: nil).

**30 (b) 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.

**30 (c) Credit risk management**

Exposure to credit risk

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

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash and cash equivalent		5,059,229	2,000,378	525,962	-
Trade receivables	8	1,843,253	1,040,079	-	-
Sundry debtors	8	143,907	159,353		
Deals awaiting settlement	11	155,441	45,431	-	-
Loan receivables from related party	14	-	-	18,166,772	3,961,658
		<u>7,201,830</u>	<u>3,245,241</u>	<u>18,692,734</u>	<u>3,961,658</u>

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**30 (c) Credit risk management**

Impairment losses

None of the Company's receivables are past due (2006: nil).

The ageing of the Group's trade receivables at the reporting date was:

	<b>Gross 2007 \$</b>	<b>Impairment 2007 \$</b>	<b>Gross 2006 \$</b>	<b>Impairment 2006 \$</b>
Not past due	1,086,982	-	863,824	-
Past due 0-30 days	153,857	42,074	134,499	-
Past due 31-120 days	238,606	98,704	13,713	-
Past due 120-365 days	289,522	52,464	10,000	-
More than 1 year	74,287	72,463	18,043	-
	1,843,253	265,704	1,040,079	-

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<b>2007 \$</b>	<b>2006 \$</b>
Balance at 1 January	-	-
Impairment loss recognised	265,704	-
Balance at 31 December	265,704	-

Trade receivables are reviewed and considered for impairment on a periodical basis, based on the number of days outstanding and number of payments in arrears. 74% (2006:60%) of the balance, which includes amounts owed by the Company's most significant customer, relates to customers that have a good credit history with the Company.

**30 (d) Currency risk management**

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	<b>31 December 2007</b>		
<b>In AUD</b>	<b>GBP</b>	<b>EUR</b>	<b>NZD</b>
Cash and cash equivalent	790,853	747,708	65,278
Trade and other receivables	442,343	493,804	53,132
Deals awaiting settlement	-	-	-
Trade and other payables	(2,196,874)	(807,672)	(45,976)
Term loans	(2,039,891)	-	-
Product plan (non-current)	-	-	-
Gross exposure	(3,003,569)	(433,840)	72,434

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<b>31 December 2006</b>	
	<b>GBP</b>	<b>EUR</b>
Cash and cash equivalent	2,438	683,073
Trade receivables	139,384	306,954
Deals awaiting settlement	-	-
Trade payables	(2,886,071)	(1,254,443)
Term loans	-	-
Product plan (non-current)	-	-
Gross exposure	<u>(2,744,249)</u>	<u>(264,416)</u>

The Company's foreign currency risk is nil as it is only exposed to the Australian dollar.

The following significant exchange rates applied during the year:

	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
AUD				
EUR	0.6113	0.5999	0.5980	0.6012
GBP	0.4204	0.4090	0.4412	0.4030

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006:

	<b>Consolidated</b>		<b>Company</b>	
	<b>Equity</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Profit or loss</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>31 December 2007</b>				
EUR	(10,128)	(42,605)	-	-
GBP	(154,241)	(403,252)	-	-
<b>31 December 2006</b>				
EUR	(33,686)	(16,504)	-	-
GBP	(164,509)	(9,644)	-	-

A 10% weakening of the Australian dollar against the above currencies at 31 December would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**30 (e) Liquidity risk management**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<b>Consolidated</b>	<b>Carrying Amount</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>
<b>31 December 2007</b>					
Trade and other payables	5,156,154	(5,156,154)	(5,156,154)	-	-
Term loans	2,039,891	(2,039,891)	(2,039,891)	-	-
Hire purchase and lease liabilities	99,720	(99,720)	(66,681)	(28,558)	(4,481)
Product plan (non-current)	104,976	(104,976)	-	(104,976)	-
	7,400,741	(7,400,741)	(7,262,726)	(133,534)	(4,481)
<b>31 December 2006</b>					
Trade and other payables	5,312,712	(5,312,712)	(5,312,712)	-	-
Bank overdraft	755,816	(755,816)	(755,816)	-	-
Term loans	3,464,064	(3,464,064)	(3,464,064)	-	-
Hire purchase and lease liabilities	96,948	(96,948)	(41,898)	(27,252)	(27,525)
Product plan (non-current)	171,668	(171,668)	-	(171,668)	-
Other payable	7,746,121	(7,746,121)	-	-	-
	17,547,329	(17,547,329)	(9,574,490)	(198,920)	(27,252)
<b>Company</b>					
<b>31 December 2007</b>					
Trade and other payables	5,213	(5,213)	(5,213)	-	-
<b>31 December 2006</b>					
Trade and other payables	11	(11)	(11)	-	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**31 Business Combination**

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 2006. The conditions precedents to the sale were satisfied on 1 December 2006 whereupon the sale became unconditional and final settlement occurred on the 20 June 2007.

The initial accounting for the acquisition of RentSmart Limited (UK) was provisionally determined at 31 December 2006 and has been finalised in the current year (refer to note 4(a)). The cost of the acquisition of £3,066,000 principally comprised 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 1 December 2006. Identifiable intangible assets recognised on acquisition are "inertia" and "distribution networks": \$4,803,652 has been attributable to the expected income stream ("inertia") from unguaranteed residual interest in equipment on unexpired rental contracts in existence at 1 December 2006 using appropriate risk based discount factors; \$677,677 has been recognised as the value of the distribution network from which the company originates rental contracts.

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

	<b>Book Value</b> <b>1/12/06</b> <b>A\$</b>	<b>Fair Value</b> <b>Adjustments</b> <b>A\$</b>	<b>Fair Value on</b> <b>Acquisition</b> <b>A\$</b>
<b>Current assets</b>			
Cash and cash equivalents	2,499	-	2,499
Trade and other receivables	4,065,368	-	4,065,368
Inventories	4,338	-	4,338
<b>Total current assets</b>	<b>4,072,206</b>	<b>-</b>	<b>4,072,206</b>
<b>Non current assets</b>			
Plant & equipment	462,639	-	462,639
Intangibles – other (i)	8,090	-	8,090
Intangibles – inertia income (i)	-	4,803,652	4,803,652
Intangibles – distribution network (i)	-	677,677	677,677
Deferred tax assets	1,037,246	-	1,037,246
<b>Total non current assets</b>	<b>1,507,975</b>	<b>5,481,328</b>	<b>6,989,303</b>
<b>TOTAL ASSETS</b>	<b>5,580,180</b>	<b>5,481,328</b>	<b>11,061,509</b>
<b>Current liabilities</b>			
Trade and other payables	(3,938,353)	-	(3,938,353)
Borrowings	(777,378)	-	(777,378)
<b>Total current liabilities</b>	<b>(4,715,732)</b>	<b>-</b>	<b>(4,715,732)</b>
<b>Non-current liabilities</b>			
Borrowings	(2,858,424)	-	(2,858,424)
Deferred tax liability	-	(1,644,398)	(1,644,398)
<b>Total non-current liabilities</b>	<b>(2,858,424)</b>	<b>(1,644,398)</b>	<b>(4,502,822)</b>
<b>TOTAL LIABILITIES</b>	<b>(7,574,155)</b>	<b>(1,644,398)</b>	<b>(9,218,554)</b>
<b>NET (LIABILITIES)/ASSETS</b>	<b>(1,993,975)</b>	<b>3,836,930</b>	<b>1,842,955</b>
Goodwill on acquisition			6,042,395
Consideration paid (ii)			7,885,350
Cash acquired			(2,499)
Net cash outflow			7,882,851

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**31 Business Combination (cont.)**

Included in the net profit of the period is \$177,468 attributable to the post-combination period. Had this business combination been affected at 1 January 2006, the revenue of the Group would be \$26,601,000 and a net profit before tax of \$293,000. In determining these amounts, management has assumed that the fair value adjustments that arose on acquisition date would have been the same if the acquisition occurred on 1 January 2006.

**32 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.

**33 Earnings per share**

	<b>2007</b>	<b>2006</b>
	<b>Cents per share</b>	<b>Cents per share</b>
<b>Basic earnings per share</b>		
From continuing operations	0.80	0.15
From continuing operations before listing cost	4.42	0.15
<b>Diluted earnings per share</b>		
From continuing operations	0.73	0.13
From continuing operations before listing cost	4.02	0.13
<b>Basic earnings per share</b>		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Profit/(Loss) after tax	738,066	126,183
Other	-	-
Earnings used in the calculation of basic EPS from continuing operations	738,066	126,183
Tax effected listing cost	3,352,489	-
Earnings before listing cost used in the calculation of basic EPS from continuing operations	4,090,555	126,183
	<b>2007</b>	<b>2006</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	92,472,024	86,310,137

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**33 Earnings per share (cont.)**

<b>Diluted earnings per share</b>		
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:		
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Profit/(Loss) after tax	738,066	126,183
Other	-	-
Earnings used in the calculation of diluted EPS from continuing operations	738,066	126,183
Tax effected listing cost	3,352,489	-
Earnings before listing cost used in the calculation of basic EPS from continuing operations	4,090,555	126,183
	<b>2007</b>	<b>2006</b>
	<b>No.</b>	<b>No.</b>
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	92,472,024	86,310,137
Shares deemed to be issued for no consideration in respect of:		
Employee options	9,237,473	6,913,187
Rights issue options	-	185,969
Convertible notes options	-	124,806
Weighted average number of ordinary shares used in the calculation of diluted EPS	101,709,497	93,534,099

**34 Related party disclosures**

The following were key management personnel (“KMP”) of the group are any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Non-Executive Directors**

P Mansell (Chairman) – Appointed 12 April 2007 (as Non-Executive Director), appointed 7 May 2007 (as Chairman)  
S Penglis  
D Griffiths  
C McDonald – Resigned 11 April 2007

**Executive Directors**

N Montarello (Managing Director and Chief Executive Officer)

**Executives**

N Barker (Group Chief Financial Officer, ThinkSmart Ltd)  
M Radotic (General Manager Sales and Operations, RentSmart Unit Trust)  
G Varma (Group Chief Information Officer, ThinkSmart Ltd)  
G Parry (Managing Director, ThinkSmart Europe Ltd)  
J Rozenbroek (Chief Financial Officer, ThinkSmart Europe Ltd)

**THINKSMART LIMITED**  
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**34 Related party disclosures (cont.)**

The KMP compensation included 'employee benefits expense' in note 6(b) is as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,972,733	1,303,318	-	-
Post-employment benefits	147,659	105,848	-	-
Other long-term employee benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	34,367	17,759	-	-
	<u>2,154,758</u>	<u>1,426,925</u>	<u>-</u>	<u>-</u>

The KMP receive no compensation in relation to management of the Company (2006: nil). The compensation disclosed above represents an allocation of the KMP's estimated compensation from the Group in relation to their services rendered by the Company.

**Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report on pages 5 to 13.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

**Loans to KMP and their related parties**

There has been no loan provided to KMP and their related parties as at 31 December 2007 (2006: nil).

**Other KMP transactions**

During the year and previous year, there has been no transaction with entities in which the KMP has significant influence over those entities' financial or operating policies.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**34 Related party disclosures (cont)**

**Options and rights over equity instruments**

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

Employee Option

	Held at 1 January 2007	Granted as compensation	Exercised	Held before share split on 10/7/07*	Held after share split on 10/7/07*	Held at 31 December 2007	Vested during the year	Vested and exercisable at 31 December 2007
<b>Directors</b>								
P Mansell	-	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-	-
N Montarello	1,700,000	-	-	1,700,000	6,800,000	6,800,000	4,000,000	4,000,000
<b>Executives</b>								
N Barker	70,000	70,000	-	140,000	560,000	560,000	-	-
M Radotic	-	70,000	-	70,000	280,000	280,000	-	-
G Varma	140,000	-	-	140,000	560,000	560,000	-	-
G Parry	-	70,000	-	70,000	280,000	280,000	-	-
J Rozenbroek	-	70,000	-	70,000	280,000	280,000	-	-

	Held at 1 January 2006	Granted as compensation	Exercised	Other changes	Held at 31 December 2006	Vested during the year	Vested and exercisable at 31 December 2006
<b>Directors</b>							
P Mansell	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-
N Montarello	1,000,000	1,700,000	(1,000,000)	-	1,700,000	1,000,000	1,000,000
<b>Executives</b>							
N Barker	-	70,000	-	-	70,000	-	-
M Radotic	-	-	-	-	-	-	-
G Varma	-	140,000	-	-	140,000	-	-
G Parry	-	-	-	-	-	-	-
J Rozenbroek	-	-	-	-	-	-	-

**THINKSMART LIMITED**  
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\* During the year, the board passed a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO. Consequently, the options are split in accordance to the share split. Refer to note 20(b)(v) for further explanation.

No options held by key management personnel are vested but not exercisable at 31 December 2006 and 2007.

No options were held by key management person related parties.

Rights Issue Options

	<b>Held at 1 January 2006</b>	<b>Granted as compensation</b>	<b>Exercised</b>	<b>Other changes</b>	<b>Held at 31 December 2006</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 31 December 2007</b>
<b>Directors</b>							
P Mansell	8,572	-	8,572	-	-	-	-
S Penglis	33,000	-	33,000	-	-	-	-
D Griffiths	35,560	-	35,560	-	-	-	-
N Montarello	380,871	-	380,871	-	-	-	-
C MacDonald	-	-	-	-	-	-	-
<b>Executives</b>							
N Barker	-	-	-	-	-	-	-
M Radotic	-	-	-	-	-	-	-
G Varma	-	-	-	-	-	-	-
G Parry	-	-	-	-	-	-	-
J Rozenbroek	-	-	-	-	-	-	-

Refer to note 22(b)(i) for details on rights issue options.

No rights issue options were held by key management personnel in 2007.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Convertible Note Options

	<b>Held at 1 January 2006</b>	<b>Granted as compensation</b>	<b>Exercised</b>	<b>Other changes</b>	<b>Held at 31 December 2006</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 31 December 2007</b>
<b>Directors</b>							
P Mansell	133,333	-	133,333	-	-	-	-
S Penglis	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-
N Montarello	-	-	-	-	-	-	-
C MacDonald	-	-	-	-	-	-	-
<b>Executives</b>							
N Barker	-	-	-	-	-	-	-
M Radotic	-	-	-	-	-	-	-
G Varma	-	-	-	-	-	-	-
G Parry	-	-	-	-	-	-	-
J Rozenbroek	-	-	-	-	-	-	-

Refer to note 22(b)(ii) for details on convertible note options.

No rights convertible note options were held by key management person in 2007.

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Movement in shares**

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

<u>After share split</u>	Held at 10 July 2007	Purchases	Sales	Received on exercise of options	Held at 31 December 2007*
<b>Directors</b>					
P Mansell	1,288,192	-	-	-	1,288,192
S Penglis	1,314,000	-	-	-	1,314,000
D Griffiths	1,951,148	-	487,788	-	1,463,360
N Montarello	34,742,732	-	21,000,000	-	13,742,732
C MacDonald	-	-	-	-	-

<b>Executives</b>					
N Barker	-	22,999	-	-	22,999
M Radotic	-	35,000	-	-	35,000
G Varma	-	25,000	-	-	25,000
G Parry	-	25,357	-	-	25,357
J Rozenbroek	-	26,400	-	-	26,400

<u>Before share split</u>	Held at 1 January 2007	Purchases	Sales	Received on exercise of options	Held at 9 July 2007
<b>Directors</b>					
P Mansell	533,810	250,000	461,762	-	322,048
S Penglis	578,500	-	250,000	-	328,500
D Griffiths	487,787	-	-	-	487,787
N Montarello	8,685,683	-	-	-	8,685,683
C MacDonald	-	-	-	-	-

<b>Executives</b>					
N Barker	-	-	-	-	-
M Radotic	-	-	-	-	-
G Varma	-	-	-	-	-
G Parry	-	-	-	-	-
J Rozenbroek	-	-	-	-	-

	Held at 1 January 2006	Purchases	Sales	Received on exercise of options	Held at 31 December 2006
<b>Directors</b>					
P Mansell	391,905	-	-	141,905	533,810
S Penglis	545,500	-	-	33,000	578,500
D Griffiths	452,227	-	-	35,560	487,787
N Montarello	7,304,812	-	-	1,380,871	8,685,683
C MacDonald	-	-	-	-	-

<b>Executives</b>					
N Barker	-	-	-	-	-
M Radotic	-	-	-	-	-
G Varma	-	-	-	-	-
G Parry	-	-	-	-	-
J Rozenbroek	-	-	-	-	-

**THINKSMART LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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\* The following shares are subject to voluntary escrow until release of ThinkSmart Limited financial results for the year ended 31 December 2008:

	<b>Held at 31 December 2007</b>
<b>Directors</b>	
P Mansell	1,000,000
S Penglis	657,000
D Griffiths	975,572
N Montarello	13,742,732

No shares were granted to key management personnel during the reporting period as compensation in 2006 or 2007.

No shares were held by related parties of key management personnel.

**Parent**

The parent entity of the Group is ThinkSmart Limited.

**Subsidiaries**

Transactions between ThinkSmart Limited and its subsidiaries, and amongst the various subsidiaries, consists of the payment and receipt of royalty fee, investment in subsidiaries, management fee and transfer of funds amongst the companies for day to day financing and intercompany loans.

Details of related party transactions, balances and amounts are set out below:

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	\$	\$
Investments in controlled entities	78,359	23,538
Amount owed by ThinkSmart Europe Ltd	7,733,466	-
Amount owed by RentSmart Unit Trust	9,854,946	9,197,796
Provision for diminution of RentSmart Unit Trust loan	-	(5,259,676)
	17,666,771	3,961,658

Amounts receivable and payable by the parent entity from and to subsidiaries are unsecured, interest free and are repayable on demand in cash.

The receivable from ThinkSmart Europe Ltd relates to funding for the acquisition of the remaining interest of RentSmart Ltd in UK in 2006. The receivable from RentSmart Unit Trust relates to the funding to repay external borrowings. Provision for diminution of RentSmart Unit Trust's loan has been reversed in 2007 as the loan is no longer considered impaired.

**Other related parties**

***KMP related parties***

For details of these transactions, refer to KMP related disclosures.



## **Independent auditor's report to the members of ThinkSmart Limited**

### **Report on the financial report**

We have audited the accompanying financial report of ThinkSmart Limited (the Company), which comprises the consolidated balance sheets as at 31 December 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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



*Auditor's opinion*

In our opinion:

- (a) the financial report of ThinkSmart Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2.

A handwritten signature in black ink, appearing to read 'D P McComish'.

KPMG

A handwritten signature in black ink, appearing to read 'D P McComish'.

D P McComish

*Partner*

Perth

Dated: 25 February 2008