

APPENDIX 4E

ANNUAL REPORT

THINKSMART LIMITED ACN 092 319 698

YEAR ENDED 31 DECEMBER 2010

- 1 Details of the reporting period and the previous corresponding period

Current period:	1 January 2010 to 31 December 2010
Prior corresponding period:	1 January 2009 to 31 December 2009

- 2 Results for announcement to the market

Key Information	Year Ended 31 December 2010 \$	Year Ended 31 December 2009 \$	Increase on Previous Period \$	Increase on Previous Period %
Operating income	42,110,562	36,755,199	5,355,363	15%
Profit after tax attributable to members of ThinkSmart Limited	6,773,013	5,171,776	1,601,237	31%
Profit after tax attributable to members of ThinkSmart Limited	6,773,013	5,171,776	1,601,237	31%

Dividends	Amount per security	Franked amount per security
Current period - 2010		
Final 2010 dividend	3.5 cents	45%
Previous corresponding period - 2009		
Interim 2009 dividend - paid 16 October 2009	1.5 cents	100%
Final 2009 dividend - paid 23 April 2010	2.0 cents	100%

Record date for determining entitlements to the dividends

The record date for the Final 2010 dividend is 15 April 2011.

Brief explanation on Revenue, Net Profit and Dividends

Refer to the 2010 annual report

- 3 Consolidated statement of comprehensive income

Refer to the 2010 annual report

- 4 Consolidated statement of financial position

Refer to the 2010 annual report

- 5 Consolidated statement of cash flows

Refer to the 2010 annual report

6 Consolidated statement of changes in equity

Refer to the 2010 annual report

7 Dividend details

The Directors has declared a 2010 final dividend of 3.5 cents per ordinary share, which will be paid on the 29 April 2011.

8 Dividend or distribution reinvestment plans

ThinkSmart Limited does not currently operate a dividend reinvestment plan.

9 Net tangible assets per security

	Year Ended 31 December 2010 \$	Year Ended 31 December 2009 \$
Ordinary shares	0.23	0.11

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 Finance Ltd	27 July 2010
RentSmart Bendigo (Servicing) Pty Ltd	10 August 2010
Name of entities where lost was gained in the financial year	Date control lost
None	

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 2010 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 2010 annual report.

15 Audited report

This annual report is based on audited accounts.

16 Statement if financial report is not audited

Not applicable as the annual report is audited.

17 Statement if financial statement is audited

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

THINKSMART LIMITED

ABN 24 092 319 698

**FINANCIAL REPORT
FINANCIAL YEAR ENDED**

31 DECEMBER 2010

THINKSMART LIMITED
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**THINKSMART LIMITED
CORPORATE INFORMATION**

ABN 24 092 319 698

Directors

N R Montarello (Chairman and Chief Executive Officer)
D Griffiths (Deputy Chairman)
S Penglis
F de Vicente

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

The Directors of ThinkSmart Limited (the "Company") submit herewith the annual financial report of the Company and the Group for the financial year ended 31 December 2010 and the auditor's report thereon. 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

Ned Montarello (Age 49)

Executive Chairman and Chief Executive Officer

Ned Montarello has over 20 years experience in the finance industry and joined the Board on 7 April 2000 and was appointed Chairman on 22 May 2010. Mr Montarello founded ThinkSmart over 14 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 in 2002/2003, establishing agreements with the UK's largest electrical retailer, DSG International and the Halifax Bank of Scotland. Following the establishment of a beachhead European operations centre in Manchester, England, Mr Montarello has driven its growth across Europe where it now also operates in Spain and Italy.

David Griffiths (Age 60)

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

Non-Executive Director, Deputy Chairman

David Griffiths joined the Board on 28 November 2000 and was appointed Deputy Chairman on the 22 May 2010. Mr Griffiths has served in a wide range of senior finance roles, most recently as Division Director of Macquarie Bank Limited and previously as Executive Chairman of Porter Western Limited.

Mr Griffiths holds an Honours Degree in Economics from The University of Western Australia, a Masters Degree in Economics from Australian National University and is a Fellow of the Australian Institute of Company Directors. David also sits on the Board of the Perth International Arts Festival. Mr Griffiths is currently a chairman of Automotive Holdings Group Limited and Northern Iron Limited. In the past three years Mr Griffiths has been a director of the following listed companies: ARC Energy Limited, Great Southern Limited and Antaria Limited.

Peter Mansell (Age 64)

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

Non-Executive Director

Peter Mansell joined the Board on 12 April 2007 and was appointed Chairman on the 7 May 2007. Mr Mansell has subsequently resigned from the Board on 22 May 2010. Mr Mansell practiced as a business lawyer for over 40 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 2002 to 2003. He is currently a director of the following Australian listed companies: Ampella Mining Ltd (Chairman) and Bunnings Property Management Limited (responsible entity for the Bunnings Warehouse Property Trust). In the past three years Mr Mansell has been a director of the following listed companies: Great Southern Limited, West Australian Newspaper Holdings Ltd, Oz Minerals Limited, Zinifex Ltd and Western Power Corporation.

THINKSMART LIMITED DIRECTORS' REPORT

Steven Penglis (Age 50)

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 ThinkSmart, 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.

Fernando de Vicente (Age 43)

B. Econ, MBA Bus

Non-Executive Director

Fernando de Vicente is a citizen of Spain whom has joined the Board on 7 April 2010. Mr de Vicente has a Degree in Economics (International Development) from the University Complutense in Madrid, and an Executive MBA from IESE Business School in Madrid. Mr de Vicente spent nine years at DSG International, one of Europe's largest electrical retailers, where he most recently held the role of International Managing Director, with responsibility for DSG's Central & Southern European operations, a A\$3 billion business with 350 stores across six countries.

Mr de Vicente started his career with DSG as Finance Director for PC City Spain, and became the MD for Spain in 2003. In 2006 he was promoted to Regional Managing Director for South-East Europe based in Greece, before assuming the role of International Managing Director in 2008. In March 2010, Mr de Vicente left DSG to become the Executive Chairman of BodyBell Group, one of Spain's largest speciality retailers.

COMPANY SECRETARY

Neil Barker B.Bus, FCPA

Neil Barker is a Certified Practising Accountant (Fellow) with over 27 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 10 Board meetings were held.

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meeting	
	A	B	A	B	A	B
N Montarello **	9	9 [^]	2*	-	1	1
D Griffiths	10	10	2	2	1	1
S Penglis	9	10	1	1	1	1
P Mansell***	3	3	1	1	1	1
F de Vicente	6	7	-	-	-	-

A – Number of meetings attended

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

* - Attendance by invitation from the Committee

** - Mr Montarello resigned from the Nomination and Remuneration Committee on 21 May 2010.

*** - Mr Mansell resigned from the Board on 22 May 2010.

[^] - Mr Montarello was not eligible to attend a board meeting as the meeting was in relation to a matter in which Mr Montarello's held an interest.

THINKSMART LIMITED

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

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

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 operational budgets, 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).

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.

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.

THINKSMART LIMITED

DIRECTORS' REPORT

- The Board regularly reviews the independence of each director in light of the interests disclosed to the Board.

On 22 May 2010, Mr Mansell retired from his role as Chairman of the Board after leading the Company through a successful transition to being a publicly listed company, and Mr Montarello was subsequently appointed Executive Chairman. The Board acknowledges the ASX Recommendation that the Chairman be an Independent Director, however, the Board views the appointment of Mr Montarello as an advantage given his history of leadership in the Company and finance industry, and his clear incentive to maximize the interests of the Company. Mr Montarello founded the Company over 14 years ago, and has been involved in expanding the business through Australia and overseas. His experience and insights continue to be invaluable to the Group.

The Board is conscious of the ASX Corporate Governance Recommendation stipulates that the roles of Chair and Chief Executive Officer should not be exercised by the same individual. Given the breadth of the Group's operations and the Executive Chairman's extensive business experience, the Board considers it appropriate that the Executive Chairman be considered the most senior executive overseeing and supervising the Group as well as managing the Group's small executive team in regard to this.

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 reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executives and directors of the Company as well as the Group. 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 S Penglis (Chair), D Griffiths, and F De Vicente.

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 an 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).

Remuneration Report - Audited

The remuneration report for 2010, 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 (options)
- E: Share-based compensation (shares)
- F: Bonus remuneration

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 executives.

THINKSMART LIMITED DIRECTORS' REPORT

Compensation levels for key management personnel and secretaries of the Company, and key management personnel of the Group are competitively set with a view to:

- Maintain alignment with shareholders' interests; and
- Ensure remuneration remains competitive to retain and attract talented people who are key to delivering sustained profitable growth of the Company.

The Nomination and 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:

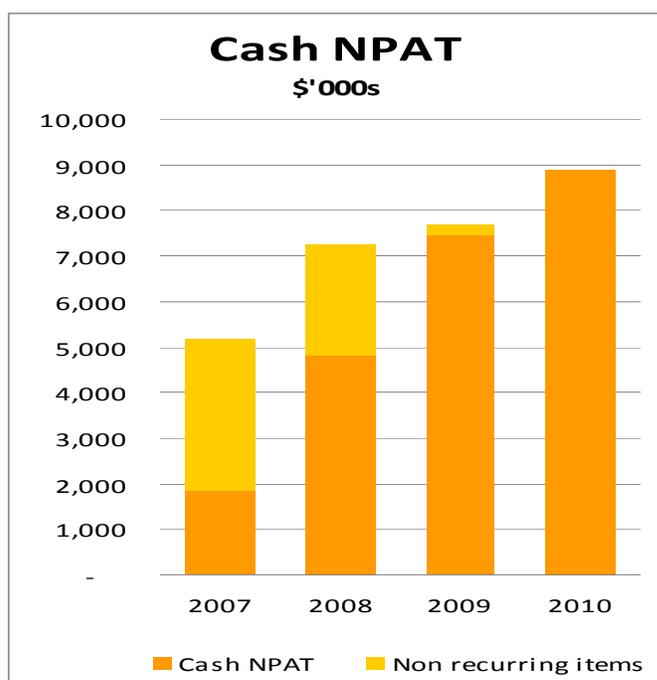
- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segment/s' performance; and
- the Group's performance.

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

Linking Executive Remuneration to Group Performance

The Directors of ThinkSmart Limited understand that linking executive remuneration to Group performance is a driver of performance. Since the Company raised equity and listed in 2007, it has delivered consistent growth in EBITDA (before listing costs) and basic EPS.

The graph below demonstrates the Group's consistent growth in cash net profit after taxation measured on a like for like basis since the Company listed on the ASX in 2007. The Cash NPAT calculations for each year exclude from NPAT, on a net of tax basis, amortisation costs, depreciation costs, and unrealised foreign exchange costs. In addition, non recurring items net of any applicable taxation are excluded being redundancy costs in 2009, US operating costs in 2008 and IPO costs in 2007.



In considering the Group's performance and benefits for shareholder wealth, the Executive Chairman and Nomination and remuneration Committee have regard to the following indices of the current financial year and the previous four financial years.

THINKSMART LIMITED
DIRECTORS' REPORT

	2010	2009	2008	2007
Profit attributable to owners of the company	\$6,773,013	\$5,171,776	\$3,210,752	\$738,066
Basic EPS	6.52 cents	5.35 cents	3.34 cents	0.80 cents
Dividends paid	\$1,937,788	\$2,900,682	\$1,933,788	-
Dividend paid per share	2 cents	3 cents	2 cents	-
Share price at year end	\$0.73	\$0.90	\$0.17	\$1.92
Change in share price	(\$0.17)	\$0.71	(\$1.73)	(\$0.23)^
Return on capital employed	36%	34%	22%	6%

^: Initial listing price of \$2.15 is used as opening share price.

Profit is considered as one of the financial performance target setting of the short term incentive. Profit amounts for 2007 to 2010 have been calculated in accordance with Australia Accounting Standards (AASBs).

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. Over the past four years, the group's profit from ordinary activities after income tax has grown at an average rate per annum of over 109%. During the same period, average key management personnel compensation has grown by approximately 5.7% per annum.

The Directors of ThinkSmart Limited consider that a variety of factors, including the broad economic environment, market sentiment and financial performance, contribute to the Company's share price. In addition, there are no closely comparable companies that would provide a meaningful relative share price measure. As a result, the Executive remuneration is linked to the Group's financial performance.

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 fees include Director's fee as well as Board Committee membership fee. The current maximum aggregate annual sum approved by shareholders at a previous general meeting is \$600,000 (2009: \$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 Company's remuneration is market competitive and aims to attract, retain and motivate high calibre employees who contribute to the sustained growth of the ThinkSmart business with a mix of the following four components:

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

The purpose of STIs is to make a significant contribution to the total reward package subject to meeting various targets linked to the Company's business objectives. An incentivised reward structure is necessary to ensure a competitive package in Australian and global marketplace for executives. Incentives are designed to focus and motivate employees to achieve outcomes beyond the expectation of normal professional competence.

Remuneration is reviewed annually. In reviewing each Executives' salary, consideration is given to external competitiveness, position responsibilities and individual skills and experience. The STI component of Executive remuneration is based on annual performance targets and delivered in the form of cash. In 2010, the Company has also introduced a new Long Term Incentive Plan which recognises performance and behaviour that delivers sustainable long term shareholder value and seeks to align the interests of management with those of the shareholders.

THINKSMART LIMITED DIRECTORS' REPORT

Base pay

Executives are offered a competitive salary that comprises the components of base pay and benefits that reflects the applied professional competence of each Executive according to his/her knowledge, experience and accountabilities. Base pay for Executives is reviewed annually by Executive Director to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion. Base pay for Executive Chairman is reviewed annually by Nomination and Remuneration Committee.

Short-term performance incentive

Short-term performance incentives (STIs) vary according to individual contracts, however, for 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.

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 STI bonus is delivered in the form of cash.

For the 2010 financial year, STI performance targets for Executives were based on the respective territories' targets of Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"), penetration rate, application volumes, settlement volumes, Average Transaction Value and territory expansion targets. These targets were selected on the basis that the Group has, and is likely to have for sometime, a small number of experienced executives and ensuring that employment practices support and encourage continuity of team engagement with sustained and profitable growth of the Company.

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 Senior Executives. The STI target annual payment is reviewed annually. Information on the STI is detailed on section F of the Remuneration Report.

Long term incentive

Long-term incentives to the Chief Executive Officer and certain senior employees were historically provided via the ThinkSmart Limited Executive Share Option Plan ("ESOP") as a retention based reward. The Company has a pre-existing ESOP, as an equity-based long-term incentive, which was initiated before the Company was listed. Given the retention focus of these grants, vesting of the options is subject to service conditions and not linked to satisfaction of performance targets. There have been no retention based options granted since the Company's listing in June 2007.

The table below sets out the details of the currently existing retention options issued to Key Management Personnel that were issued in 2006 and 2007 before the Company's listing:

Instrument	Each option represents an entitlement to one ordinary share.
Exercise price	Retention Options Tranche 5: \$1.375 Retention Options Tranche 6: \$3.00
Vesting conditions	Subject to the executive remaining an employee of the Group. If the executive ceases to be an employee of the Group before the option is exercised, all options held by the executive will automatically lapse one month after the date of cessation of employment. There are no performance hurdles applicable to the retention options.
Why vesting conditions are chosen	The vesting conditions are designed to ensure retention of key executives.
Vesting date	Retention Options Tranche 5 & 6: 1 January 2009
Exercise period	Retention Options Tranche 5 & 6: From vesting date to expiry date
Expiry date	Retention Options Tranche 5 & 6: 31 December 2011
Disposal restriction	No disposal restriction imposed at the time of this grant.

THINKSMART LIMITED
DIRECTORS' REPORT

During 2010, the Company completed a comprehensive review of current remuneration arrangements for senior executives to determine an appropriate structure to support the Company's short term and long term business strategies and be aligned to corporate governance principles. The review included input from external consultants on comparative remuneration levels, trends and practices. As part of the review, the Board has agreed to reactivate the ESOP which recognises performance and behaviour that delivers sustainable long term shareholder value and seeks to align the interests of management with those of the shareholders. Consequently, options are issued to executives, and the ability to exercise the options is conditional on the Group achieving the pre-determined performance criteria.

The table below sets out the details of the performance options issued to Key Management Personnel:

Instrument	Each option represents an entitlement to one ordinary share.
Exercise price	Performance Options Tranche 1 - \$0.62 Performance Options Tranche 2 - \$1.11
Vesting conditions	<p>Performance options will vest on, and become exercisable on or after, the Vesting Date to the extent that certain performance conditions that are based on the achievement of pre-determined financial performance of the Group over the performance measurement period, as follows:</p> <ul style="list-style-type: none"> - 50% of performance options are subject to achievement of Earnings Per Share (EPS) performance condition; and - 50% of performance options are subject to achievement of Total Shareholder Return (TSR) performance condition. <p>Subject to the executive remaining an employee of the Group. If the executive ceases to be an employee of the Group before the option is exercised, all options held by the executive will automatically lapse one month after the date of cessation of employment.</p>
EPS performance target	<p>The Company's EPS growth will be measured relative to a target of more than 7.5% per annum compound growth. The proportion of the EPS award that vests will be:</p> <ul style="list-style-type: none"> - Compound EPS growth of 7.5% p.a. or less: 0% - Compound EPS growth between 7.6% to 9.9%: 4% of the EPS award for each 0.1% of compound EPS growth above 7.5% - Compound EPS growth of 10% p.a. or more: 100%
EPS performance period	<p>Performance Options Tranche 1: 3 year period commencing 1 January 2009 with the base year being the period ended 31 December 2008.</p> <p>Performance Options Tranche 2: 3 year period commencing 1 January 2010 with the base year being the period ended 31 December 2009.</p>
Why vesting conditions are chosen	The vesting conditions were chosen as performance conditions as they reflect, at the date they were granted, the improvement of earnings.
TSR performance target	<p>The Company will be given percentile ranking having regards to its performance relative to a comparator group consisting of the S&P/ASX Small Ordinaries Index (ASX code: ASO). The Company will be given a percentile ranking having regard to its performance relative to the comparative group of companies. The percentage of the TSR reward that vests will be determined by the Company's ranking as follows:</p> <ul style="list-style-type: none"> - TSR rank less than 50th percentile: 0% - TSR ranks 50th percentile: 50% - TSR rank between 50th and 75th percentile: 50% plus an additional 2% of this award for each additional percentile ranking above 50th percentile - TSR rank at or above 75th percentile: 100%

THINKSMART LIMITED
DIRECTORS' REPORT

TSR performance period	Performance Options Tranche 1: As at 1 January 2009 Performance Options Tranche 2: As at 1 January 2010
Why vesting conditions are chosen	The vesting conditions were chosen as performance conditions as they reflect, at the date they were granted, alignment with shareholder expectations.
Vesting date	Performance Options Tranche 1: 1 January 2012 Performance Options Tranche 2: 31 December 2012
Exercise period	Performance Options Tranche 1: From vesting date to expiry date Performance Options Tranche 2: From vesting date to expiry date
Expiry date	Performance Options Tranche 1: 31 December 2013 Performance Options Tranche 2: 31 December 2014
Disposal restriction	No disposal restriction imposed at the time of this grant.

Information on the pre-existing plan is detailed on section D of the Remuneration Report.

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 Group executives who received the highest remuneration for the year ended 31 December 2010.

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	Value of options as	
		Salary & fee	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits	Termination benefits	Options and rights	Shares	Total	performance related	proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$		\$	%	%
Directors												
Non-Executive Directors												
P Mansell*	2010	24,751	-	-	24,751	2,228	-	-	-	26,979	-	-
	2009	64,599	-	-	64,599	5,814	-	-	-	70,413	-	-
S Penglis	2010	62,145	-	-	62,145	5,593	-	-	-	67,738	-	-
	2009	55,000	-	-	55,000	4,950	-	-	-	59,950	-	-
D Griffiths	2010	67,500	-	-	67,500	6,075	-	-	-	73,575	-	-
	2009	58,750	-	-	58,750	5,288	-	-	-	64,038	-	-
F de Vicente*	2010	49,050	-	-	49,050	-	-	-	-	49,050	-	-
	2009	-	-	-	-	-	-	-	-	-	-	-
Executive Director												
N Montarello	2010	649,527	48,000	-	697,527	31,651	-	87,531	-	816,709	17%	11%
	2009	594,444	-	-	594,444	40,318	-	14,174	-	648,936	2%	2%
Executives												
A Baum*	2010	141,666	-	-	141,666	10,000	-	10,903	24,889	187,458	6%	6%
	2009	-	-	-	-	-	-	-	-	-	-	-
N Barker	2010	322,996	26,000	-	348,996	31,410	-	35,671	-	416,077	15%	9%
	2009	321,330	10,000	-	331,330	29,820	-	8,847	-	369,996	5%	2%
M Radotic**	2010	103,859	17,816	15,317	136,992	9,076	-	5,949	-	152,017	16%	4%
	2009	233,922	34,692	20,653	289,267	21,410	-	2,591	-	313,267	12%	1%
S McDonagh*	2010	165,046	22,425	-	187,471	16,872	-	-	-	204,343	11%	0%
	2009	259,231	6,500	-	265,731	23,916	-	2,591	-	292,237	3%	1%
G Varma	2010	268,623	15,089	-	283,712	25,534	-	13,872	-	323,118	4%	4%
	2009	251,487	50,000	-	301,487	27,134	-	5,825	-	334,445	2%	2%
G Parry	2010	228,807	21,010	9,946	259,763	11,440	-	18,685	-	289,889	14%	6%
	2009	248,790	19,824	11,686	280,300	12,439	-	2,591	-	295,330	8%	1%
Total	2010	2,083,970	150,340	25,263	2,259,573	149,879	-	172,612	24,889	2,606,953	12%	7%
Total	2009	2,087,552	121,016	32,339	2,240,907	171,088	-	36,617	-	2,448,612	6%	1%

* During the year, the Key Management Personnel has either resigned or been appointed. Please refer to the following page for details.

** Remuneration up to 30 June 2010, as Mr Radotic was reposted to a new role, where he is no longer classified as a KMP.

THINKSMART LIMITED DIRECTORS' REPORT

The following are Key Management Personnel of the Group:

Executive Director

- N Montarello (Chairman, Managing Director and Chief Executive Officer, ThinkSmart Limited)

Non-Executive Director

- P Mansell (Chairman, ThinkSmart Limited) – resigned 22 May 2010
- D Griffiths (Deputy Chairman, ThinkSmart Limited) – appointed Deputy Chairman 22 May 2010)
- S Penglis (Non-Executive Director, ThinkSmart Limited)
- F de Vicente (Non-Executive Director, ThinkSmart Limited) – appointed to Board on the 7 April 2010

Executives

- A Baum (Group Chief Operating Officer, ThinkSmart Limited) – appointed 1 September 2010
- N Barker (Group Chief Financial Officer, ThinkSmart Limited)
- S McDonagh (Executive General Manager, RentSmart Unit Trust) – resigned 23 July 2010
- M Radotic (General Manager Sales & Marketing Continental Europe, RentSmart Limited) – ceased being a KMP after reposting as General Manager Customer Care, RentSmart Unit Trust, on the 1 July 2010
- G Varma (Group Chief Information Officer, ThinkSmart Limited)
- G Parry (Managing Director - UK, RentSmart Limited)

C. Service agreements - audited

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 Managing Director are formalised in a service agreement. The Managing Director's employment agreement has been extended to a fixed term of 3 years to 28 August 2012. All other employment agreements are unlimited in term but capable of termination with one 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 11 are entitled to the payment provided for in the service agreement, where applicable. 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 (Options) - audited

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:

	No of options granted during 2010	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	No of options vested during 2010
Directors						
N Montarello	1,000,000	05/05/2010	0.2746	1.11	31/12/2014	-
Executives						
A Baum	333,333	01/09/2010	0.2287	1.11	31/12/2014	-
N Barker	333,333	05/05/2010	0.2746	1.11	31/12/2014	-
M Radotic	100,000	05/05/2010	0.2746	1.11	31/12/2014	-
G Varma	100,000	05/05/2010	0.2746	1.11	31/12/2014	-
G Parry	200,000	05/05/2010	0.2746	1.11	31/12/2014	-

THINKSMART LIMITED
DIRECTORS' REPORT

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

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

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation - audited

During the reporting period, the following shares were issued as a result of the exercise of options in the 2010 financial year.

	No of shares	Amount paid \$/share
Executives		
N Barker	280,000	0.625

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

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.

Options granted					
Director	Number of shares	Grant Date	% vested in year	% forfeited in year (a)	Financial year in which grant vest
N Montarello	1,400,000	28/08/2006	-%	-%	2009
	1,000,000	30/06/2009	-%	-%	2012
	1,000,000	05/05/2010	-%	-%	2012
Executives					
A Baum	333,333	01/09/2010	-%	-%	2013
N Barker	*280,000	05/01/2006	33%	-%	2010
	160,000	17/04/2007	-%	-%	2009
	120,000	17/04/2007	-%	-%	2009
	500,000	30/06/2009	-%	-%	2012
	333,333	05/05/2010	-%	-%	2013
S McDonagh	300,000	30/06/2009	-%	100%	2012
M Radotic	160,000	17/04/2007	-%	-%	2009
	120,000	17/04/2007	-%	-%	2009
	300,000	30/06/2009	-%	-%	2012
	100,000	05/05/2010	-%	-%	2013
G Varma	*280,000	05/01/2006	33%	-%	2010
	150,000	30/06/2009	-%	-%	2012
	100,000	05/05/2010	-%	-%	2013
G Parry	160,000	17/04/2007	-%	-%	2009
	120,000	17/04/2007	-%	-%	2009
	300,000	30/06/2009	-%	-%	2012
	200,000	05/05/2010	-%	-%	2013

(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.

* Option series vest equally over 3 years on 1 January 2008, 2009 and 2010.

Analysis of movement of options - audited

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.

THINKSMART LIMITED
DIRECTORS' REPORT

	Granted in year \$ (a)	Exercised in year \$ (b)	Lapsed in year \$ (c)
Directors			
N Montarello	274,600	-	-
Executives			
A Baum	76,233	-	-
N Barker	91,533	56,200	-
S McDonagh	-	-	87,000
M Radotic	27,460	-	-
G Varma	27,460	-	19,600
G Parry	54,920	-	-
	552,206	56,200	106,600

- (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. Share Based Compensation (Shares) - audited

All shares refer to shares over ordinary shares of ThinkSmart Limited.

Shares granted as compensation – audited

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

	No of shares granted during 2010	Grant date	Fair value at grant date (\$)	Vesting period	No of shares vested during 2010
Executives					
A Baum	350,000	01/09/2010	0.64	3 years	-

No shares are granted since the end of the financial year. The shares are provided at no cost to the recipient.

These shares were issued to A Baum upon him joining ThinkSmart Ltd and are held in escrow. The shares are ordinary shares in the Company and will vest upon completion of a 3-year service period. During this period, Mr Baum is entitled to any dividends declared by the Company and normal voting rights are attached. In the event that Mr Baum's employment with the Company ceases before the vesting period (i.e. through resignation or termination), the shares will be cancelled. If Mr Baum is retrenched by the Company due to changes in the Company's structure or operations, he will be entitled to retain the shares and they will become immediately unconditional if this occurs before the escrow period expires.

Analysis of shares granted as compensation - audited

Details of vesting profiles of the shares 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.

THINKSMART LIMITED
DIRECTORS' REPORT

	Shares granted		% vested in year	% forfeited in year (a)	Financial year in which grant vest
	Number of shares	Grant Date			
Executives					
A Baum	350,000	01/09/2010	-%	-%	2013

(a) The % forfeited in the year represents the reduction from the maximum number of shares available to vest due to the highest level service criteria not being achieved.

Analysis of movement of shares - audited

The movement during the reporting period, by value of 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)	Vested in year \$ (b)	Lapsed in year \$ (c)
Executives			
A Baum	224,000	-	-
	<u>224,000</u>	<u>-</u>	<u>-</u>

(a) The value of shares granted in the year is the fair value of the shares as determined in reference to the prevailing market price of the Company's shares on the ASX.

(b) The value of shares vested during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the shares were vested.

(c) The value of the shares that lapsed during the year represents the benefit forgone and is determined in reference to the prevailing market price of the Company's shares on the ASX at the date the shares lapsed, with no adjustments for whether the service criteria had been achieved.

F. Bonus remuneration - audited

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)	Maximum entitlement \$	% vested in year	% forfeited in year (b)
Directors				
N Montarello	48,000	240,000	20%	80%
Executives				
N Barker	26,000	130,000	20%	80%
S McDonagh	22,425	78,000	29%	71%
M Radotic	17,816	63,429	28%	72%
G Varma	15,089	50,297	30%	70%
G Parry	21,010	63,429	33%	67%

(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 2010 financial year.

(b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

THINKSMART LIMITED DIRECTORS' REPORT

Audit and Risk Committee

The Audit and Risk Committee has a documented charter, approved by the Board, which is available on the website (www.thinksmartworld.com). 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 S Penglis.

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. The external auditors, CEO and CFO, are invited to the Audit Committee meetings at the discretion of the Committee. The external auditor met with the Audit Committee and the Board of Directors twice during the year without management being present.

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).

Internal audit

The Committee has the responsibility of:

- reviewing the internal audit objectives and resourcing (including determining whether the internal audit function is to be provided by an internal or external party provider);
- ensuring an appropriate program of internal audit activity is conducted each financial year;
- reviewing and monitoring the progress of an internal audit and work program (without the presence of management);
- overseeing the coordination of the internal and external audit; and
- evaluating and critiquing management's responsiveness to internal audit finding and recommendations.

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.

Assessment of effectiveness of risk management

The Audit and Risk Committee is responsible for approving the internal audit plan to be conducted each financial year and for the scope of the work to be performed. An independent review to assess and evaluate the quality of the internal audit function is undertaken once every two years.

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.

THINKSMART LIMITED DIRECTORS' REPORT

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 31 to the financial statements.

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.

THINKSMART LIMITED DIRECTORS' REPORT

- 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.

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 \$6,773,013 (2009: \$5,171,776).

The period has seen the Group improve EBITDA by 12%, from \$11.9m to \$13.3m, or 21% if the impact of the strengthening Australian dollar on translation of offshore earnings is ignored. EBITDA in the second half of 2010 was 34% higher than the first half as a result of increased volumes and improved margins in Australia and the launch of the new Infinity consumer product in the UK. The investments in core technology in the last 2 years continue to deliver operational efficiencies across the Group with the cost of doing business reducing by 17% in the year. The Australian operations has increased its EBITDA contribution by 34% from 45% higher settled volumes and a 12% increase in operating costs, whilst increasing revenue by 30%. The UK operations result was impacted by the expenses relating to the establishment of capacity to introduce the Infinity consumer product. Total revenue was unchanged for the year at £7.3m and EBITDA reduced by 8% with a small positive contribution from the first 2 months of Infinity volumes. Settled volumes of the SmartPlan B2B product were down 12%, the impact of which was offset by the 12% increase in average transaction volumes. Revenues from inertia increased by 5% for the year. The successful launch of the services based Infinity product with Dixons in UK provides a benchmark for future product development initiatives across the Group.

The Group has increased its distribution channels in existing markets through signing of retail operating agreements in Italy with Computer Discount in addition to extending existing retailer agreements with JB HiFi and Dick Smith in Australia and Dixons in UK.

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.

DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

THINKSMART LIMITED
DIRECTORS' REPORT

	Cents per share	Total amount	Franked/unfranked	Date of payment
Declared and paid during the year 2010				
Final 2009 ordinary	2.0	1,937,788	100% Franked	23 April 2010

Declared after year end

After the balance sheet date, the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

Final 2010 ordinary	3.5	4,545,779	45% Franked	29 April 2011
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The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2010 and will be recognised in subsequent financial reports.

Dividends have been dealt within the financial report as:

	Note	Total amount (\$)
Declared and paid during the year 2010		
Final 2009 ordinary	20(c)	1,937,788

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 other than the announcement on 17 February 2011 confirming ThinkSmart had executed an Operating Agreement for GBP40m of new financing facilities in UK and received credit approval from a major Australian bank for a AUD\$100m securitisation facility in Australia.

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, Italy, Australia and New Zealand. In mainland Europe the Group will continue to execute a multi-channel retailer model akin to the Australian business which should deliver market share gains in selected territories. There will be an increased focus on direct origination of new business through online retail distribution.

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 Securities Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	ThinkSmart Limited	
	Number of ordinary shares	Number of options granted over ordinary shares
N Montarello	22,020,297	2,000,000
S Penglis	1,272,600	-
D Griffiths	2,160,000	-
F de Vicente	-	-

THINKSMART LIMITED
DIRECTORS' REPORT

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:

	No of options granted	Exercise price	Expiry date
Directors			
N Montarello	1,000,000	\$1.11	31/12/2014
Executives			
N Barker	333,333	\$1.11	31/12/2014
A Baum	333,333	\$1.11	31/12/2014
G Varma	100,000	\$1.11	31/12/2014
G Parry	200,000	\$1.11	31/12/2014

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

Shares granted to directors and officers of the Company

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

	No of options granted	Share price at grant date	Vesting date
Executives			
A Baum	350,000*	\$0.64	1/09/2013

*Shares are escrowed for 3 years until 1 September 2013.

All shares were granted during the financial year. No shares 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:

Number of shares	Amount paid on each share
840,000	\$0.625

Unissued shares under options

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

Number of shares under option	Exercise price of options	Expiry date of options
480,000	\$1.375	31 December 2011
480,000	\$3.00	31 December 2011
2,900,000	\$0.62	31 December 2013
2,433,333	\$1.11	31 December 2014

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 pages 5 to 15.

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

**THINKSMART LIMITED
DIRECTORS' REPORT**

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance to the Company's constitution, the Company must indemnify its directors and officers on a full indemnity basis and to the full extent permitted by law against all liabilities incurred by the directors and officers in their capacity as an officer of the Company or of a related body corporate.

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, and its related practices for audit and non-audit services provided during the year are set out in note 25.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration which forms part of this report, is included in page 23 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



N Montarello
Director
Perth, 18 February 2011



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 2010 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, appearing to read 'Denise McComish'.

KPMG

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

Denise McComish
Partner

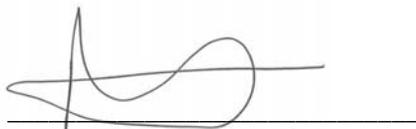
Perth

18 February 2011

THINKSMART LIMITED
DIRECTORS' DECLARATION

1. In the opinion of the Directors of ThinkSmart Limited (the "Company"):
 - a) The consolidated 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 77, are in accordance with the Corporations Act 2001, including:
 - I. Giving a true and fair view of the Group's financial position as at 31 December 2010 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; and
 - c) 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 2010.

Signed in accordance with a resolution of the directors:



N Montarelli
Director
Perth, 18 February 2011

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income
For the Financial Year Ended 31 December 2010

	Notes	2010 \$	2009 \$
Revenue	6(a)	42,110,562	36,755,199
Employee benefits expense	6(b)	(10,908,454)	(11,040,118)
Sales and marketing costs		(10,520,320)	(7,119,362)
Occupancy costs		(1,062,593)	(1,042,872)
Communication costs		(662,027)	(713,383)
Doubtful and bad debts		(239,514)	(244,175)
Legal and consulting costs		(682,473)	(706,689)
Credit bureau costs		(656,468)	(475,590)
Corporate development costs		(2,594,617)	(2,046,496)
Insurance costs		(207,847)	(151,335)
Other expenses	6(f)	(1,319,156)	(1,333,339)
EBITDA - results before interest, tax, depreciation and amortisation		13,257,093	11,881,840
Finance costs	6(e)	(530,591)	(992,980)
Foreign exchange loss		(492,911)	(603,651)
Depreciation expense	6(c)	(465,167)	(555,159)
EBTA – results before amortisation and income tax (expense)		11,768,424	9,730,050
Amortisation of intangibles	6(d)	(2,053,385)	(2,096,726)
Profit before Tax		9,715,039	7,633,324
Income tax expense	7	(2,942,026)	(2,461,548)
Profit from continuing operations		6,773,013	5,171,776
Other comprehensive income			
Foreign currency translation differences for foreign operations		(1,337,529)	(1,065,883)
Other comprehensive income for the period, net of income tax		(1,337,529)	(1,065,883)
Total comprehensive income for the period attributable to owners of the Company		5,435,484	4,105,893
Earnings per share			
Basic (cents per share)	31	6.52	5.35
Diluted (cents per share)	31	6.29	5.26

The attached notes form an integral part of these consolidated financial statements.

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position
As At 31 December 2010

	Notes	2010 \$	2009 \$
Current Assets			
Cash and cash equivalents	22(a)	21,186,022	5,468,171
Trade and other receivables	8	2,582,338	1,740,369
Inventories	9	57,707	74,586
Prepayments	10	3,276,469	4,315,120
Other	11	394,083	310,615
Total Current Assets		27,496,619	11,908,861
Non-Current Assets			
Deposits held by funders	8	6,737,156	731,609
Prepayments	12	2,372,572	2,953,610
Plant and equipment	13	1,120,251	1,091,334
Intangibles	15	4,348,343	3,775,984
Goodwill	16	3,540,774	4,177,746
Deferred tax assets	7	287,676	100,550
Total Non-Current Assets		18,406,772	12,830,833
Total Assets		45,903,391	24,739,694
Current Liabilities			
Trade and other payables	18	4,825,478	3,549,365
Borrowings	19	2,489,944	2,494,222
Tax payable		521,144	333,344
Total Current Liabilities		7,836,566	6,376,931
Non-Current Liabilities			
Deferred tax liability	7	367,698	198,387
Other		-	493
Total Non-Current Liabilities		367,698	198,880
Total Liabilities		8,204,264	6,575,811
Net Assets		37,699,127	18,163,883
Equity			
Issued Capital	20	39,615,239	23,614,091
Reserves	21	(4,135,736)	(2,834,607)
Accumulated profits/(losses)		2,219,624	(2,615,601)
Total Equity		37,699,127	18,163,883

The attached notes form an integral part of these consolidated financial statements.

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity
for the financial year ended 31 December 2010

Consolidated	Fully paid ordinary shares	Equity settled employee benefits reserve	Foreign currency translation reserve	Accumulated (Losses)/Profit	Attributable to equity holders of the parent
	\$	\$	\$	\$	\$
Balance at 1 January 2009	23,614,091	147,142	(1,968,454)	(4,886,695)	16,906,084
Exchange differences arising on translation of foreign operations	-	-	(1,065,879)	-	(1,065,879)
Net income recognised directly in equity	-	-	(1,065,879)	-	(1,065,879)
Profit for the period	-	-	-	5,171,776	5,171,776
Total comprehensive income for the period	-	-	(1,065,879)	5,171,776	4,105,897
Transactions with owners of the Company, recognised directly in equity					
<i>Contributions by and distributions to owners of the Company</i>					
Dividends paid	-	-	-	(2,900,682)	(2,900,682)
Recognition of share-based payments	-	52,584	-	-	52,584
Balance at 31 December 2009	23,614,091	199,726	(3,034,333)	(2,615,601)	18,163,883
Balance at 1 January 2010	23,614,091	199,726	(3,034,333)	(2,615,601)	18,163,883
Exchange differences arising on translation of foreign operations	-	(5,176)	(1,332,353)	-	(1,337,529)
Net income recognised directly in equity	-	(5,176)	(1,332,353)	-	(1,337,529)
Profit for the period	-	-	-	6,773,013	6,773,013
Total comprehensive income for the period	-	(5,176)	(1,332,353)	6,773,013	5,435,484
Transactions with owners of the Company, recognised directly in equity					
<i>Contributions by and distributions to owners of the Company</i>					
Issue of ordinary shares, net of after tax capital raising costs	15,252,148	-	-	-	15,252,148
Share options exercised	525,000	-	-	-	525,000
Dividends paid	-	-	-	(1,937,788)	(1,937,788)
Share-based payments held in escrow	224,000	(224,000)	-	-	-
Recognition of share-based payments	-	260,400	-	-	260,400
Balance at 31 December 2010	39,615,239	230,950	(4,366,686)	2,219,624	37,699,127

The attached notes form an integral part of these consolidated financial statements.

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF CASH FLOW

Consolidated Statement of Cash Flow
For the Financial Year Ended 31 December 2010

	Notes	2010 \$	2009 \$
Cash Flows from Operating Activities			
Receipts from customers		36,882,735	37,008,698
Payments to suppliers and employees		(28,668,294)	(27,195,464)
Interest received		437,417	67,339
Interest paid		(121,109)	(112,694)
Income tax paid		(1,722,399)	(2,451,419)
Net cash from operating activities	22(b)	6,808,350	7,316,460
Cash Flows from Investing Activities			
Payments for plant and equipment		(625,535)	(464,937)
Proceeds from sale of plant and equipment		132,611	-
Payment for intangible assets – Software		(1,182,736)	(1,526,957)
Payment for intangible assets – Contract rights		(1,551,111)	-
Net cash used in investing activities		(3,226,771)	(1,991,894)
Cash Flows from Financing Activities			
Hire purchase and lease finance repaid		(3,543)	(112,593)
Finance charges		(846,899)	(930,066)
Proceeds from rights issue		16,000,000	-
Payment for equity raising cost		(1,068,354)	-
Proceeds from exercise of share options		525,000	-
Dividend paid		(1,937,788)	(2,900,682)
Net cash from/(used in) financing activities		12,668,416	(3,943,341)
Net increase in cash and cash equivalents		16,249,995	1,381,225
Effect of exchange rate fluctuations on cash held		(532,144)	(460,425)
Cash and cash equivalents at beginning of the financial year		5,468,171	4,547,371
Net available cash and cash equivalents at the end of the financial year	22(a)	21,186,022	5,468,171
Restricted cash and cash equivalent at the end of the financial year		(2,917,361)	-
Total cash and cash equivalent at the end of the financial year		18,268,661	5,468,171

The attached notes form an integral part of these consolidated financial statements.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 2010 comprise of the Company and its subsidiaries (the “Group”). The Group’s principal activity is to arrange finance for renting of equipment in Australia, New Zealand and Europe.

2. Basis of Preparation

a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 18 February 2011.

b) 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.

c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

d) Changes in accounting policies

Information regarding changes to the accounting policies of the Group are found as follows:

- Business combination – note 3(b)
- Consolidation – note 3(b)

e) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 32.

f) Accounting policies available for early adoption not yet adopted

A number of new standards and interpretations are effective for annual periods beginning after 1 July 2010 and have not been applied in preparing this financial report. None of these are expected to have material effect on the financial report of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group’s 2014 financial report and could change the classification and measurement of financial assets. The extent of the impact has not been determined.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(d), which address changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year’s presentation (see note 6(g)).

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Change in accounting policy

The Group has adopted revised AASB 3 *Business Combinations* (2009) and amended AASB 127 *Consolidated and Separate Financial Statements* (2009) for business combinations occurring in the financial year starting 1 January 2010. All business combinations occurring on or after 1 January 2010 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and has had no material impact on earnings per share, or any other disclosures in this financial report.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the asset transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below).

Share-based payment awards

When share-based payment awards exchanges (replacement awards) for awards held by acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant component of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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
- Motor vehicles	5 years
- Leased computer equipment and software	2.5 to 5 years

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

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.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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.

g) Investments

Investments in controlled entities 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. 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 other comprehensive income.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Intellectual property is recorded at the cost of acquisition over the fair value of the identifiable net assets acquired, and 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.

Contract Rights

The contractual rights obtained by the Group under financing agreements entered into with its funding partners and retail partners constitute intangible assets with finite useful lives. These contract rights are recognised initially at cost and amortised over their expected useful lives. In relation to funder contract rights, the expected useful life is the earlier of the initial contract term or expected period until facility limit is reached. At each reporting date a review for indicators of impairment is conducted.

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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 4 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.

Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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:

Commission income

Commission receivable from funders is recognised at the time finance approval is given to the customer, adjusted for an allowance for loans not expected to proceed to a contract by the funder.

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.

Insurance income

Commission income includes commissions received on insurance policies issued by third party insurers to cover theft and damage of rental equipment. In UK, a proportion of the insurance income is recognised at inception on the basis of stage of completion of the service, with the remaining income recognised over the life of the policy. The revenue recognition policy for the Australian insurance income is consistent with the treatment of commission income from funders.

p) Financial Instruments

Non-derivative financial assets

The group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

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.

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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 purchase consideration.

Tax consolidation

The Company and its wholly owned Australian resident entities formed a tax-consolidated group during 2009. As a consequence, all members of the tax-consolidated group are taxed as a single entity from 1 January 2009. The head entity within the tax-consolidated group is ThinkSmart Ltd.

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; and
- 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.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are presented in profit or loss on a net basis, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

The income and expenses of foreign operations in hyperinflationary economies are translated to the functional currency at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their

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financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is classified to profit or loss.

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 salary 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.

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 are 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 date.

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.

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

y) **Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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 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)).

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.

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). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of employee shares provided as compensation is measured using the closing share price on the date the shares are granted.

Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.

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.

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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 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 2009.

a) Key sources of estimation uncertainty and critical judgements in applying the entity's accounting policies

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 16 – measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 15 – recoverable amount of intangible assets
- Note 7 – utilisation of tax losses
- Note 20 – measurement of share based payments
- Note 26 and 27 – contingent assets and liabilities
- Note 18 – Provision for employee entitlements

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5. Financial Risk Management

Overview

The Group has exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the 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 faced by 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 Group's activities. The Group, through its training and management standards and procedures, aims 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 Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

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 arises 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 has minimal concentrations of credit risk in relation to trade receivables. In most cases, credit risk arising from customer rental contracts are not borne by the Group but by the funding institutions. 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 Group's credit risk exposure to funder deposits are more concentrated, however the counterparties are regulated banking institutions and the credit risk exposure is assessed as low. The Group closely monitors the credit risk associated with each funder deposit counterparty.

The Group assesses the 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 32.

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 facilities by continuously reviewing its facilities and cash flows.

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NOTES TO THE FINANCIAL STATEMENTS

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 bank overdraft facility of \$250,000. Interest is payable at ANZ's reference rate.
- Secured bill acceptance facility of \$5,000,000, in which \$2,500,000 is presently drawn down. Interest is payable at prevailing bank rate.
- Other operational facilities are set out in note 22 (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), Sterling (GBP) and US dollars (USD). The currencies in which these transactions primarily are denominated are AUD, EUR, GBP and USD.

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 (2009: 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. The terms and conditions of current interest-bearing borrowings are set out above. 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.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

THINKSMART LIMITED
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The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Development of business continuity plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

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 of capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

	2010	2009
	\$	\$
Total liabilities	8,204,261	6,575,811
Less cash and cash equivalents	21,186,022	5,468,171
Net debt/(cash)	<u>(12,981,761)</u>	<u>1,107,640</u>
Total equity	37,699,127	18,163,883
Less adjustments	-	-
Adjusted capital	<u>37,699,127</u>	<u>18,163,883</u>
Debt-to-adjusted capital ratio at 31 December	<u>-</u>	<u>0.06</u>

The Board encourages employees to hold shares in the Company. At present employees hold 22.8% (2009: 23.7%) of ordinary shares.

The Group is not subject to externally imposed capital requirements. For the purposes of capital management, capital consists of share capital, reserves and retained earnings.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Notes	2010 \$	2009 \$
6. Profit			
Profit is arrived at after crediting/(charging) the following items:			
a) Revenue			
Commission income from funders		25,501,346	19,972,868
Revenue received on sale of equipment		4,675,138	4,959,036
Rental income		6,076,363	5,692,057
Insurance and warranty brokerage income		5,050,340	5,120,436
Other revenue		807,375	1,010,802
		42,110,562	36,755,199
b) Employee benefits expense			
Payments to employees		9,321,359	9,923,028
Employee superannuation cost		739,670	547,730
Share options cost		260,400	15,727
Provision for employee entitlements		587,025	553,633
		10,908,454	11,040,118
c) Depreciation expense			
Depreciation of plant and equipment		365,650	320,891
Depreciation of leasehold improvements		63,827	104,626
Depreciation of self funded rentals		-	3,344
Depreciation of web sites		-	565
Depreciation of lease equipment & software		35,690	125,733
		465,167	555,159
d) Amortisation expense			
Amortisation of software		660,681	586,788
Amortisation of contract rights		635,406	205,423
Amortisation of distribution network		100,988	124,427
Amortisation of inertia contracts		624,219	1,147,994
Amortisation of intellectual property		32,091	32,094
		2,053,385	2,096,726

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Notes	2010 \$	2009 \$
6. Profit (cont.)			
e) Finance (costs)/benefits			
Interest revenue – other entities		437,417	67,339
– related parties		-	-
Total finance benefits		<u>437,417</u>	<u>67,339</u>
Interest expense – other entities		(121,109)	(130,253)
– related parties		-	-
Total interest costs		<u>(121,109)</u>	<u>(130,253)</u>
Finance charges		<u>(846,899)</u>	<u>(930,066)</u>
Total finance benefit/(cost)		<u>(530,591)</u>	<u>(992,980)</u>
f) Other Expenses			
Gain/(Loss) on sale of property and equipment		73,866	-
Other expenses		<u>(1,393,022)</u>	<u>(1,333,339)</u>
		<u>(1,319,156)</u>	<u>(1,333,339)</u>

Other expenses comprise of other administrative expenses including postage, travel and training.

g) Reclassification of items of income and expense

To facilitate accurate comparison to 2010, certain items of income and expense have been reclassified as follows:

	Prior year accounts 2009 \$	Reclassification \$	Current year comparative 2009 \$
Revenue	36,756,819	(1,620)	36,755,199
Employee benefits expense	(10,522,389)	(517,729)	(11,040,118)
Sales and marketing costs	(6,880,869)	(238,493)	(7,119,362)
Occupancy costs	(1,043,357)	485	(1,042,872)
Communication costs	(590,522)	(122,861)	(713,383)
Doubtful and bad debts	(244,175)	-	(244,175)
Legal and consulting costs	(686,886)	(19,803)	(706,689)
Credit bureau costs	(475,184)	(406)	(475,590)
Corporate development costs	(2,046,496)	-	(2,046,496)
Insurance costs	(150,355)	(980)	(151,335)
Other expenses	(2,234,746)	901,407	(1,333,339)
EBITDA - results before interest, tax, depreciation and amortisation	<u>11,881,840</u>	<u>-</u>	<u>11,881,840</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2010	2009
	\$	\$
7. Income Tax		
The major components of income tax expense for the year ended 31 December are:		
<i>Current income tax expense</i>		
Current income tax charge	2,562,286	1,940,806
Adjustment for prior period	54,694	(139,865)
<i>Deferred income tax expense</i>		
Origination and reversal of temporary differences	348,182	237,447
Adjustment for prior period	(48,435)	203,476
Change in unrecognised temporary differences	25,299	219,684
Income tax expense/ (benefit) reported in income statement	2,942,026	2,461,548
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:		
Accounting profit/(loss) before tax	9,715,039	7,633,324
At the statutory income tax rate of 30%	2,914,512	2,289,997
Effect of tax rates in foreign jurisdictions	12,229	(63,389)
Non deductible expenses:		
- corporate development	30,619	91,034
- other	(51,988)	(31,132)
Overseas tax losses not recognised	30,394	238,649
Adjustments in respect of prior periods	6,260	(63,611)
Income tax expense reported in the income statement	2,942,026	2,461,548
Income tax recognised directly in equity		
Equity raising cost	320,500	-

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

7. Income Tax (cont.)

	2010	2009
	\$	\$
Deferred tax asset		
Corporate development cost	477,214	357,444
Employee entitlement	194,110	229,988
Equity raising cost	553,128	595,340
Consulting cost	2,026	2,702
Borrowing cost	13,919	-
Plant & equipment	241,675	1,076,351
Other	133,604	62,029
Total	<u>1,615,676</u>	<u>2,323,854</u>
Deferred tax liability		
Deals awaiting settlement	118,225	93,039
Intangible assets	246,732	337,274
Plant & equipment	300,424	1,515,399
ABL servicer fee	792,637	331,628
Other	237,680	144,351
Total	<u>1,695,698</u>	<u>2,421,691</u>
Net deferred tax asset (i)	<u>287,676</u>	<u>100,550</u>
Net deferred tax liability (i)	<u>367,698</u>	<u>198,387</u>

(i) Deferred tax assets and deferred tax liabilities that relate to the same taxable entity has been netted off.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	<u>726,920</u>	<u>1,256,608</u>
	<u>726,920</u>	<u>1,256,608</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets that relate to tax losses in France and USA have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the group can utilise the benefits there from.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Note	2010 \$	2009 \$
8. Trade and Other Receivables			
<u>Current</u>			
Trade receivables (i)		2,362,465	1,519,955
Allowance for doubtful debts		(112,178)	(214,448)
Deposits held by funder (ii)		143,398	373,816
Sundry debtors		188,653	61,044
		2,582,338	1,740,369
<u>Non-current</u>			
Deposits held by funder (ii)		6,737,156	731,609
		6,737,156	731,609

(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 28.

(ii) Deposits held by funders for the servicing and management of their portfolios in the event of default. The deposits earn interest at market rates of return for similar instruments.

The Group's exposure to credit risk related to trade and other receivables is disclosed in note 28.

9. Inventories

Promotional stock on hand		-	1,826
Rental asset inventory		57,707	72,760
		57,707	74,586

10. Prepayments - Current

Insurance prepayment	3(h)	1,296,775	2,393,154
Retailer marketing prepayment		1,004,617	1,148,961
Other prepayment		975,077	773,005
		3,276,469	4,315,120

11. Other Current Assets

Deals awaiting settlement		394,083	310,131
Other		-	484
		394,083	310,615

12. Prepayments – Non current

Insurance prepayment	3(h)	2,372,572	2,953,610
		2,372,572	2,953,610

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Plant & Equipment

	Plant & Equipment \$	Leasehold improvements \$	Self funded rentals \$	Web Sites \$	Lease equipment & software \$	Total \$
Gross Carrying Amount						
Cost or deemed cost						
Balance at 1 Jan 2009	1,895,802	338,799	149,958	76,450	2,272,620	4,733,629
Net foreign currency translation differences	(154,602)	(62,110)	-	-	(22,594)	(239,306)
Additions	382,680	-	-	-	82,257	464,937
Disposals	-	-	-	-	-	-
Balance at 31 Dec 2009	2,123,880	276,689	149,958	76,450	2,332,283	4,959,260
Net foreign currency translation differences	(179,554)	(41,467)	-	-	(9,012)	(230,033)
Additions	384,004	-	-	-	241,531	625,535
Disposals	(665,179)	(4,718)	(149,958)	(76,450)	(1,636,053)	(2,532,358)
Balance at 31 Dec 2010	1,663,151	230,504	-	-	928,749	2,822,404
Accumulated Depreciation						
Balance at 1 Jan 2009	(1,153,126)	(140,884)	(140,011)	(75,157)	(1,963,495)	(3,472,674)
Net foreign currency translation differences	98,799	38,513	-	-	22,594	159,906
Disposals	-	-	-	-	-	-
Depreciation expense	(320,891)	(104,626)	(3,344)	(565)	(125,733)	(555,159)
Balance at 31 Dec 2009	(1,375,218)	(206,997)	(143,355)	(75,722)	(2,066,634)	(3,867,926)
Effect of movement in exchange rate	111,068	37,247	-	-	9,010	157,325
Disposals	566,746	3,073	143,355	75,722	1,684,719	2,473,615
Depreciation expense	(365,650)	(63,827)	-	-	(35,690)	(465,167)
Balance at 31 Dec 2010	(1,063,054)	(230,504)	-	-	(408,595)	(1,702,153)
Net Book Value						
At 31 Dec 2009	748,662	69,692	6,603	728	265,649	1,091,334
At 31 Dec 2010	600,097	-	-	-	520,154	1,120,251

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		% of Equity	
		2010	2009
14. Interest in Subsidiaries			
Interest in Subsidiaries	Country of Incorporation		
RentSmart Unit Trust	Australia	100%	100%
RentSmart Pty Ltd	Australia	100%	100%
ThinkSmart Finance Ltd (i)	Australia	100%	-%
RentSmart Servicing (Bendigo) Pty Ltd (ii)	Australia	100%	-%
RentSmart Limited	UK	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 ThinkSmart Insurance	UK	100%	100%
Administration Ltd	UK	100%	100%
SmartCheck Finance Spain SL	Spain	100%	100%
SmartPlan Spain SL	Spain	100%	100%
ThinkSmart France SARL	France	100%	100%
ThinkSmart Sweden AB	Sweden	100%	100%
ThinkSmart Italy Srl	Italy	100%	100%
ThinkSmart Inc	USA	100%	100%

(i) ThinkSmart Finance Ltd was incorporated on the 27 July 2010.

(ii) RentSmart Servicing (Bendigo) Pty Ltd was incorporated on the 10 August 2010.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Contract rights	Software	Distribution network	Intellectual Property	Inertia Contracts	Total
	\$	\$	\$	\$	\$	\$
15. Intangible Assets						
Gross carrying amount						
At cost						
Balance at 1 January 2009	897,506	1,814,801	563,789	641,816	3,996,366	7,914,278
Additions	300,403	1,169,748	56,806	-	-	1,526,957
Effect of movement in exchange rate	(73,025)	-	(79,300)	-	(562,112)	(714,437)
Balance at 31 December 2009	1,124,884	2,984,549	541,295	641,816	3,434,254	8,726,798
Additions	1,551,111	1,182,736	-	-	-	2,733,847
Effect of movement in exchange rate	(32,357)	-	(130,676)	-	(523,613)	(686,646)
Balance at 31 December 2010	2,643,638	4,167,285	410,619	641,816	2,910,641	10,773,999
Accumulated amortisation and impairment						
Balance at 1 January 2009	(447,578)	(365,636)	(261,013)	(272,774)	(2,014,593)	(3,361,594)
Amortisation expense	(205,423)	(586,788)	(124,427)	(32,094)	(1,147,994)	(2,096,726)
Effect of movement in exchange rate	65,028	-	48,655	-	393,823	507,506
Balance at 31 December 2009	(587,973)	(952,424)	(336,785)	(304,868)	(2,768,764)	(4,950,814)
Amortisation expense	(635,406)	(660,681)	(100,988)	(32,091)	(624,219)	(2,053,385)
Effect of movement in exchange rate	31,034	-	65,167	-	482,342	578,543
Balance at 31 December 2010	(1,192,345)	(1,613,105)	(372,606)	(336,959)	(2,910,641)	(6,425,656)
Net book value						
At 31 December 2009	536,911	2,032,125	204,510	336,948	665,490	3,775,984
At 31 December 2010	1,451,293	2,554,180	38,013	304,857	-	4,348,343

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Notes	2010 \$	2009 \$
16. Goodwill			
Balance at beginning of financial year		4,177,746	4,861,551
Effect of movement in exchange rate		(636,972)	(683,805)
Balance at end of financial year		3,540,774	4,177,746

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the UK operations, RentSmart Limited and ThinkSmart Insurance and Administration Ltd, 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.

The recoverable amount of the RentSmart Limited and ThinkSmart Insurance and Administration Ltd cash-generating unit were based on its value in use, and was determined by using future cash flows generated from the continuing use of the unit. The recoverable amount of the unit was determined to be significantly higher than the carrying amount, therefore no impairment of goodwill is required, and no further sensitivity analysis is considered necessary.

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 forecast operating results for 2011, 5% year-on-year growth to 2015, and conservative estimated terminal growth at 2.5%.
- A post tax discount rate of 14.31% was applied in determining the recoverable amount of the unit. The discount rate was based on the weighted average cost of capital (WACC) for the Group. The WACC is predominantly a factor of the cost of equity which has been set at 15% consistent with independent determinations of the Group's cost of equity.

17. Assets Pledged as Security

RentSmart Unit Trust and ThinkSmart Ltd have pledged all its present and future assets to ANZ as security for the used financing facilities ANZ has provided, as disclosed in note 22(c).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Note s	2010 \$	2009 \$
18. Trade and Other Payables			
Trade and other payables (i)		3,514,163	2,365,369
Product plan		218,442	185,429
GST Payable		585,006	497,321
Provision for employee entitlement:			
Annual leave		231,200	264,766
Long service leave (ii)		276,667	214,501
Other		-	21,980
		4,825,478	3,549,366

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

(ii) The pro rate entitlement of long service leave is provided for after 7 years of service.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

19. Current Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

Term loans (ii)	2,489,944	2,490,679
Hire purchase and lease liabilities (i)	-	3,543
	2,489,944	2,494,222

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

(ii) The \$2,489,944 fixed term loan relates to a \$2,500,000 180-day commercial bill denominated in Australian Dollar with a fixed interest of 4.96% pa. The loan was payable on the 17 January 2011. The Company has subsequently rolled the \$2,500,000 commercial bill for another 30-day ending 16 February 2011 with a fixed interest of 4.86%.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital	2010	2009
	\$	\$
(a) Issued and Paid up Capital		
129,879,390 Ordinary Shares fully paid (2009: 96,689,390)	39,615,239	23,614,091
	Number	\$
<i>Fully Paid Ordinary Shares</i>		
Balance at beginning of the financial year	96,689,390	23,614,091
Issue of new shares following exercise of options	840,000	525,000
Issue of new shares for employee share based payment	350,000	224,000
Issue of new shares from rights issue	32,000,000	16,000,000
Rights issue costs, net of deferred tax	-	(747,852)
Balance at end of the financial year	129,879,390	39,615,239

During the year, 840,000 employee share options were exercised for total proceeds of \$525,000 (2009: No employee share options were exercised). The Company has issued 350,000 escrowed shares to Mr A Baum (Chief Operating Officer) during the year as part of his remuneration, refer to note 20(b)(ii). The Company has also completed a rights issue of 32,000,000 shares at \$0.50 per share.

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 each Share is entitled to one vote.

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

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

(b)(i) Share Options – Employee Options

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 and payment of the exercise price. 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.

Options issued in previous periods:

- 640,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$1.375, 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.
- 3,350,000 options over ordinary shares were issued 30 June 2009 and exercisable at \$0.62, with an exercise period between 1 January 2012 to 31 December 2013. Vesting of the options is subject to achievement of the following performance conditions:
 - 50% of options are subject to achievement of Earnings per Share (“EPS”) performance conditions; and
 - 50% of options are subject to achievement of Total Shareholder Return (“TSR”) performance condition.

Options issued in the current period:

- 2,200,000 and 333,333 options over ordinary shares were issued 5 May 2010 and 1 September 2010 respectively. The options are exercisable at \$1.11, with an exercise period between 1 January 2013 to 31 December 2014. Vesting of the options is subject to achievement of the following performance conditions:
 - 50% of options are subject to achievement of Earnings per Share (“EPS”) performance conditions; and
 - 50% of options are subject to achievement of Total Shareholder Return (“TSR”) performance condition.

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

Below are options that were issued in 2010 and 2009:

Options series issued in 2010	Number	Grant date	Exercise period	Exercise price \$	Fair value at grant date
Employee options	2,200,000	05/05/2010	1 January 2013 to 31 December 2014	\$1.11	\$0.2746
Employee options	333,333	01/09/2010	1 January 2013 to 31 December 2014	\$1.11	\$0.2287
Options series issued in 2009	Number	Grant date	Exercise period	Exercise price \$	Fair value at grant date
Employee options	3,350,000	30/06/2009	1 January 2012 to 31 December 2013	\$0.62	\$0.0683

The weighted average fair value of the share options granted in 2010 is \$0.27 (2009: \$0.0683). Options were priced using a binomial option pricing model. Expected volatility is based on that observed for comparable listed companies over the time period appropriate to the option grant in question.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

(b)(i) Share Options – Employee Options (cont.)

Below are the inputs used to measure the fair value of the options:

	Employee options	Employee options
<u>Issued in 2010</u>		
Grant date	5/05/2010	1/09/2010
Fair value at grant date	\$0.2746	\$0.2287
Grant date share price	\$0.815	\$0.62
Exercise price	\$1.11	\$1.11
Expected volatility	61.5%	83.7%
Option life	3.7 years	3.3 years
Dividend yield	3.5%	7.46%
Risk-free interest rate	5.26%	4.35%

	Employee options
<u>Issued in 2009</u>	
Grant date	30/06/2009
Fair value at grant date	\$0.0683
Grant date share price	\$0.48
Exercise price	\$0.62
Expected volatility	40.0%
Option life	4.0 years
Dividend yield	9.01%
Risk-free interest rate	4.96%

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

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	6,736,667	\$1.05	5,186,667	\$1.52
Granted during the financial year	2,533,333	\$1.11	3,350,000	\$0.62
Forfeited during the financial year	(550,000)	\$0.71	(400,000)	\$2.35
Exercised during the financial year	(840,000)	\$0.625	-	-
Expired during the financial year	(1,586,667)	\$1.51	(1,400,000)	\$1.38
Balance at the end of financial year	<u>6,293,333</u>	<u>\$1.05</u>	<u>6,736,667</u>	<u>\$1.05</u>
Exercisable at end of the financial year	<u>960,000</u>	<u>\$2.19</u>	<u>3,106,667</u>	<u>\$1.56</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

(b)(i) Share Options – Employee Options (cont.)

The options outstanding at 31 December 2010 have an exercise price in the range of \$0.62 to \$3.00 (2009: \$0.625 to \$3.00) and a weighted average contractual life of 3.08 years (2009: 2.56 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2010 was \$0.80 (2009: Nil, no options were exercised).

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

	2010 \$	2009 \$
Share options granted in 2006 – equity settled	20,740	23,656
Share options granted in 2009 – equity settled	51,960	28,928
Share options granted in 2010 – equity settled	162,811	-
Shares as remuneration granted in 2010 – equity settled	24,889	-
Total expense recognised as employee costs	260,400	52,584

(b)(ii) Share Compensation – Employee Shares

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

	No of shares granted during 2010	Grant date	Fair value at grant date (\$)	Vesting period	No of shares vested during 2010
Executives					
A Baum	350,000	01/09/2010	0.64	3 years	-

No shares are granted since the end of the financial year. The shares are provided at no cost to the recipients.

These shares were issued to A Baum upon him joining ThinkSmart Ltd and are held in escrow. The shares are ordinary shares in the Company and will vest upon completion of a 3-year service period. During this period, Mr Baum is entitled to any dividends declared by the Company and normal voting rights are attached. In the event that Mr Baum's employment with the Company ceases before the vesting period (i.e. through resignation or termination), the shares will be cancelled. If Mr Baum is retrenched by the Company due to changes in the Company's structure or operations, he will be entitled to retain the shares and they will become immediately unconditional if this occurs before the escrow period expires.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (cont.)

(c) Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount	Franked/ unfranked	Date of payment
2010				
Final Ordinary 2009	2.0	\$1,937,788	100% franked	23 April 2010
2009				
Final ordinary 2008	1.5	\$1,450,341	100% franked	14 April 2009
Interim ordinary 2009	1.5	\$1,450,341	100% franked	16 October 2009

Franked dividend declared or paid during the year was 100% franked at the tax rate of 30% (2009: 100% franked at the tax rate of 30%).

After 31 December 2010, the following dividends were declared by the directors for 2010. The dividends have not been provided for. The declaration and subsequent payment of dividends has no income tax consequences.

	Cents per share	Total amount	Franked/ Unfranked	Date of payment
Final ordinary 2010	3.5	\$4,545,779	45% franked	29 April 2011

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2010, and will be recognised in subsequent financial reports.

(d) Franking credits

	2010 \$	2009 \$
Franking credit account balance as at the beginning of the financial year at a tax rate of 30% (2009: 30%)	545,068	434,600
Franking credits from the payment of income tax paid and payable as at the end of the financial year	1,160,426	1,400,092
Franking debits from the payment of dividends in the financial year	(1,090,489)	(1,289,624)
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	<u>615,005</u>	<u>545,068</u>

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance sheet date but not recognised as a liability is to reduce it by \$876,686 (2009: \$828,766). A tax instalment has been paid in January 2011 and another instalment will be paid in April 2011, which will provide sufficient franking credit for the payment of partially franked dividend on 29 April 2010. In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group is allowed to assume the relevant subsidiaries' franking credits. As at 31 December 2010, the subsidiaries have no franking credits for the benefit for the Company (2009: nil).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2010	2009
	\$	\$
21. Reserves		
Equity settled employee benefits reserve – options (i)	419,061	199,726
Equity settled employee benefits reserve – shares (i)	(188,111)	-
Foreign currency translation reserve (ii)	(4,366,686)	(3,034,333)
	<u>(4,135,736)</u>	<u>(2,834,607)</u>

- (i) The share-based compensation reserve arises on the grant of share options and shares to executives under the employee share option plan. Amounts are transferred out of the reserves and into issued capital when the options are exercised. For shares issued as remuneration and accounted for as a share based payment arrangement, the full fair value of the shares are initially recognised in the reserve and share capital, and are subsequently transferred out of the reserve to the profit and loss over the vesting period. Further information about the share-based payments is made in note 20(b) 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.

22. Notes to the Cash Flow Statement

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

Reconciliation of cash and cash equivalents

Cash balance comprises:

- Available cash and cash equivalents	18,268,661	5,468,171
- Restricted cash	2,917,361	-

The restricted cash is held as part of the Group's funding arrangements and the restriction will cease as the contract term expires.

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are discussed in note 28.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

	2010	2009
	\$	\$
(b) Reconciliation of the profit /(loss) for the year to net cash flows from operating activities:		
Profit after tax	6,773,013	5,171,776
Depreciation	465,167	555,158
Amortisation	2,053,385	2,096,726
Loss on disposal of plant and equipment	(73,866)	-
Provision for doubtful debts	239,514	244,175
Provision for employee entitlements	6,620	(31,576)
Equity settled share based payment	260,400	52,584
Finance charges recognised as financing activity	846,899	930,066
(Increase) / decrease in assets:		
Trade receivables and deposits with funders	(7,082,898)	(759,941)
Prepayments	1,623,821	1,010,760
Deferred tax asset	133,372	865,018
Other assets	(83,465)	(117,243)
Rental asset inventory	16,879	(9,066)
Increase / (decrease) in liabilities:		
Trade and other creditors	1,272,890	(1,057,647)
Provision for income tax	(91,134)	(1,132,219)
Deferred tax liability	448,245	(463,956)
Other payable	(492)	(38,155)
Net cash from/(used in) operating activities	6,808,350	7,316,460

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

	2010	2009
	\$	\$
(c) Financing facilities		
Secured bank overdraft facility reviewed annually and payable at call:		
- amount used	-	-
- amount unused	250,000	250,000
	<u>250,000</u>	<u>250,000</u>
Hire purchase and/or leasing facilities:		
- amount used	-	3,543
- amount unused	10,000	10,000
	<u>10,000</u>	<u>13,543</u>
Secured bill acceptance facility:		
- amount used	2,500,000	2,500,000
- amount unused	2,500,000	2,500,000
	<u>5,000,000</u>	<u>5,000,000</u>
Other finance facilities (business credit card, payroll facility, term loan, multi-option facility):		
- amount used	121,500	108,500
- amount unused	7,523,500	7,536,500
	<u>7,645,000</u>	<u>7,645,000</u>
Total Financing Facility	<u>12,905,000</u>	<u>12,908,543</u>

The total financing facility of \$12,905,000 (2009: \$12,908,544) 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 (2009: Nil).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. Leases and Hire Purchase Obligations

Finance Leases – Leasing Arrangements

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

Finance lease liabilities	Note	Consolidated		
		Future minimum lease payments	Interest \$	Present value of minimum lease payments \$
<u>31 December 2010</u>				
No later than 1 year		-	-	-
Later than 1 year and not later than 5 years		-	-	-
<hr/>				
<u>31 December 2009</u>				
No later than 1 year		4,033	490	3,544
Later than 1 year and not later than 5 years		-	-	-
<hr/>				
		4,033	490	3,544

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

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.

	2010 \$	2009 \$
Non-cancellable operating lease payments:		
No later than 1 year	807,061	809,814
Later than 1 year and not later than 5 years	1,709,594	2,614,348
<hr/>		
		2,516,655
		3,424,162

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

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. Segment Information

The Group has 3 reportable segments, which are the group's strategic business units. The strategic business units offer the same products and services, and are based on geographical location. For each of the strategic business units, the CEO reviews the internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Europe: Includes UK, Spain, Italy and France
- Australasia: Includes Australia and New Zealand
- USA

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Operating Segments

Information about reportable segments

For the year ended 31 December

	Europe		Australasia		USA		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
External revenues	14,459,016	15,244,638	27,648,749	21,509,066	2,797	1,495	42,110,562	36,755,199
Intersegment revenue	-	-	1,474,304	2,061,806	-	-	1,474,304	2,061,806
Interest income	9,628	2,374	2,484,275	950,438	-	-	2,493,902	952,812
Interest expense	(1,011,740)	(915,329)	(1,174,838)	(100,397)	-	-	(2,186,578)	(1,015,726)
Depreciation and amortisation	(1,166,759)	(1,690,667)	(1,351,793)	(961,219)	-	-	(2,518,552)	(2,651,886)
Reportable segment profit before income tax	2,294,722	3,984,700	11,775,145	8,065,567	(16,983)	(27,210)	14,052,883	12,023,058
Other material non-cash items:								
Impairment on plant and equipment and intangible assets	-	-	-	-	-	-	-	-
Reportable segment assets	17,707,606	15,591,339	27,902,009	8,817,925	1,894	6,456	45,611,508	24,415,720
Reportable segment liabilities	1,788,765	2,223,576	6,473,983	4,402,771	2,105	430	8,264,853	6,626,777
Capital expenditure	444,331	414,377	2,915,050	1,577,518	-	-	3,359,381	1,991,895
Reconciliation of reportable segment revenues								
Total revenue for reportable segments							43,584,866	38,817,005
Elimination of inter-segment revenue							(1,474,304)	(2,061,806)
Consolidated revenue							42,110,562	36,755,199
Reconciliation of reportable segment profit or loss								
Total profit or loss for reportable segments							14,052,883	12,023,058
Elimination of inter-segment profits							(1,482,828)	(2,284,082)
Unallocated expenses							(2,855,016)	(2,105,652)
Consolidated profit before tax							9,715,039	7,633,324
Reconciliation of reportable segment assets								
Total assets for reportable segments							45,611,508	24,415,720
Other unallocated amounts							291,883	323,974
Consolidated total assets							45,903,391	24,739,694
Reconciliation of reportable segment liabilities								
Total liabilities for reportable segments							8,264,853	6,626,777
Other unallocated amounts							(60,589)	(50,966)
Consolidated total liabilities							8,204,264	6,575,811

There has been no change to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2009.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. Segment Information (cont.)

Major customer

Revenues from the Group's funding partners represent \$25,501,346 (2009: \$19,972,868) of the Group's total revenue.

	2010	2009
	\$	\$
25. Remuneration of Auditors		
Audit services:		
<i>Auditors of the Company:</i>		
Audit and review of financial reports (Australia)	224,807	181,330
Audit and review of financial reports (Overseas)	68,337	86,902
	<u>293,144</u>	<u>268,232</u>
Services other than statutory audit:		
<i>Other assurance services</i>		
Tax and other services	22,133	33,896
	<u>22,133</u>	<u>33,896</u>

The Group's auditors are KPMG in 2010 and 2009.

26. Commitments and Contingent Liabilities

Under the terms of the UK former funding agreement the group is potentially liable to refund part of its brokerage income in the event that the funders bad debts exceed certain pre-agreed levels. As at 31 December 2010, the maximum amount of brokerage income that the group may potentially have to refund in the future is \$492,027 (2009:\$485,516).

Under the terms of the UK current funding agreement with Secure Trust Bank, the group is obliged to purchase delinquent leases from the funder at the funded amount. At 31 December 2010, the total funded amount of all leases funded by the funder is \$11,845,103 (2009: nil) against which the group has provided \$683,372 (2009: nil) being its estimate of the funded amount of these leases that are likely to become delinquent in the future.

Included in cash and cash equivalents, \$2,917,361 (2009: nil) which are held as part of the Group's funding arrangements and are restricted.

Under the terms of its Australian funding agreement the group has deposits held by the funder as credit support for the portfolio of leases funded by the funder. These deposits represent amounts held in excess of expected future losses, however the group has a potential risk that, should losses exceed expected levels and alternate remedies are not made, a portion of these deposits may be forfeit. As at 31 December 2010, the maximum amount of funder deposits that the group may potentially forfeit in the future is \$3,122,945 (2009: nil). Further funder deposits are held by the funder against the risk of default by the group under the servicing provisions of its Australian funding agreement. Should the group default against these obligations, the entire deposit would be forfeit. As at 31 December 2010 the deposit held against servicing default was \$2,643,398 (2009: \$1,105,425).

Under the terms of its Australian funding agreement the group has issued a bank guarantee, held by a third party, in favour of its Australian funder as an additional layer of credit support for the portfolio of leases funded by the funder. In the unlikely event that losses exceed expected levels and alternate remedies are not made, including accessing funder deposits, and the funder calls on the bank guarantee, the group would have a liability to the amount called upon. As at 31 December 2010, the maximum exposure the group had under the bank guarantee was \$7 million (2009: \$7 million).

Under the terms of a new Retailer Agreement entered into in 2010, the Group committed to pay a deferred establishment fee of \$1,350,000. This establishment fee, when paid will be recognised as a contract rights intangible asset and amortised over its expected useful life.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

27. 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 2010, are discounted using appropriate risk factors. The estimated value of future cash flows is \$9,572,203 (2009: \$10,635,969), representing the discounted after 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 2010, this asset is fully amortised with nil carrying amount.

28. Financial Instruments

28 (a) Interest rate risk

Profile

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

	Note	Carrying amount	
		2010 \$	2009 \$
Fixed rate instruments			
Hire purchase and finance lease liability		-	3,543
Financial liability		-	3,543
Variable rate instruments			
Cash and cash equivalent		21,186,022	5,468,171
Deposits held by funder (current)		143,398	373,816
Deposits held by funder (non-current)		6,737,156	731,609
Term loan		(2,489,944)	(2,490,679)
Net financial asset		25,576,632	4,082,917

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (cont.)

28 (a) Interest rate risk

Sensitivity analysis

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 \$255,766 (2009: \$40,829).

28 (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.

28 (c) Credit risk management

Exposure to credit risk

The maximum credit risk exposure of the Group is the sum of the carrying amount of the Group's financial assets and the contingent liabilities in note 26. The carrying amount of the Group's financial assets that is exposed to credit risk at reporting date is:

	Note	2010 \$	2009 \$
Cash and cash equivalent	22(a)	21,186,022	5,468,171
Trade receivables (current)	8	2,362,465	1,519,955
Deposits held by funder (current)	8	143,398	373,816
Deposits held by funder (non-current)	8	6,737,156	731,609
Sundry debtors	8	188,653	61,044
Deals awaiting settlement	11	394,083	310,131
Prepayments (current)	10	1,296,775	2,393,154
Prepayments (non-current)	12	2,372,572	2,953,610
		34,681,124	13,811,490

The carrying amount of the Group's financial assets that is exposed to credit risk at reporting date by geographic region is:

Australasia	22,110,658	4,419,067
Europe	12,568,574	9,386,297
USA	1,892	6,126
	34,681,124	13,811,490

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (cont.)

28 (c) Credit risk management

The carrying amount of the Group's financial assets that is exposed to credit risk at reporting date by types of counterparty is:

	2010	2009
	\$	\$
Banks	21,186,022	5,468,171
Funders	8,202,305	1,448,720
Retail partners	790,063	529,695
Insurance partners	3,669,346	5,346,765
Others	833,388	1,018,139
	34,681,124	13,811,490

In 2010, 66% (2009: 73%) of the total prepayment relates to RentSmart Limited's upfront insurance premiums payment to Allianz on behalf of the rental customer. The premiums are recovered from the customer on a monthly basis. In the event the customer defaults, the policy is cancelled and Allianz refunds the unexpired premium.

Impairment losses

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

	Gross	Impairment	Gross	Impairment
	2010	2010	2009	2009
	\$	\$	\$	\$
Not past due	2,088,171	53,993	1,040,151	23,246
Past due 0-30 days	104,134	5,468	98,626	32,494
Past due 31-120 days	88,350	25,172	93,604	26,927
Past due 120-365 days	79,042	27,545	209,286	125,820
More than 1 year	2,769	-	78,288	5,961
	2,362,465	112,178	1,519,955	214,448

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

	2010	2009
	\$	\$
Balance at 1 January	214,448	258,615
Impairment loss recognised	239,513	244,175
Bad debt written off	(308,555)	(264,222)
Effect of exchange rate	(33,228)	(24,120)
Balance at 31 December	112,178	214,448

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (cont.)

28 (c) Credit risk management

Trade receivables are reviewed and considered for impairment on a periodic basis, based on the number of days outstanding and number of payments in arrears. 90% (2009: 55%) of the net trade receivables balance is owed by the Group's most significant financiers, and 3% (2009: 21%) of the remaining net receivables balance is owed by debtors with a good credit history with the Group.

28 (d) Currency risk management (cont.)

Exposure to currency risk

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

	31 December 2010			
In AUD	GBP	EUR	NZD	USD
Cash and cash equivalent	6,392,124	491,964	48,531	1,894
Trade and other receivables	1,913,291	70,180	107,939	-
Trade and other payables	(1,738,530)	(229,750)	(82,448)	(2,105)
Gross exposure	6,566,885	332,394	74,222	(212)

	31 December 2009			
In AUD	GBP	EUR	NZD	USD
Cash and cash equivalent	3,253,711	236,491	60,560	6,129
Trade and other receivables	360,190	66,145	76,681	-
Trade and other payables	(1,345,557)	(211,075)	(89,336)	(430)
Gross exposure	2,268,344	91,561	47,905	5,699

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	2010	2009	2010	2009
EUR	0.6938	0.5664	0.7647	0.6241
GBP	0.5950	0.5044	0.6585	0.5581
USD	0.9197	0.7927	1.0163	0.8969
NZD	1.2744	1.2481	1.3171	1.2354

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (cont.)

28 (d) Currency risk management (cont.)

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 2009:

	Equity \$	Profit or loss \$
31 December 2010		
EUR	76,472	20,665
GBP	(1,447,168)	(82,553)
USD	19	1,544
NZD	(24,525)	(3,684)
31 December 2009		
EUR	70,836	69,065
GBP	(1,215,251)	(133,817)
USD	548	2,473

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.

28 (e) Liquidity risk management

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

Consolidated	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
31 December 2010					
Trade and other payables	4,317,615	(4,317,615)	(4,317,615)	-	-
Term loans	2,489,944	(2,500,000)	(2,500,000)	-	-
	6,807,559	(6,807,559)	(6,807,559)	-	-
31 December 2009					
Trade and other payables	3,048,126	(3,048,126)	(3,048,126)	-	-
Term loans	2,490,679	(2,500,000)	(2,500,000)	-	-
Hire purchase and lease liabilities	3,543	(3,543)	(3,543)	-	-
Product plan (non-current)	492	(492)	-	(492)	-
	5,542,840	(5,542,840)	(5,542,348)	(492)	-

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29 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 – resigned 22 May 2010
D Griffiths – appointed Deputy Chairman 22 May 2010
S Penglis
F de Vicente – appointed 7 April 2010

Executive Directors

N Montarello (Chairman, Managing Director and Chief Executive Officer)

Executives

A Baum (Group Chief Operating Officer, ThinkSmart Limited) – appointed 1 September 2010
N Barker (Group Chief Financial Officer, ThinkSmart Limited)
S McDonagh (Executive General Manager, RentSmart Unit Trust) – resigned 23 July 2010
M Radotic (General Manager Sales & Marketing Continental Europe, RentSmart Limited) – ceased being a KMP after reposting as General Manager Customer Care, RentSmart Unit Trust, on the 1 July 2010
G Varma (Group Chief Information Officer, ThinkSmart Limited)
G Parry (Managing Director - UK, RentSmart Limited)

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

	2010	2009
	\$	\$
Short-term employee benefits	2,259,573	2,240,908
Post-employment benefits	149,879	171,089
Share-based payment	197,501	36,619
	<u>2,606,953</u>	<u>2,448,616</u>

The KMP receive no compensation in relation to management of the Company (2009: nil).

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 is provided in the Remuneration Report section of the Directors’ report.

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 2010 (2009: nil).

Other KMP transactions

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

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:

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29 Related Party Disclosures (cont)

Employee Options

	Held at 1 January 2010	Granted as compensation	Exercised	Lapsed or forfeited	Held at 31 December 2010	Vested during the year	Vested and exercisable at 31 December 2010
Directors							
P Mansell	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-
N Montarello	2,400,000	1,000,000	-	(1,400,000)	2,000,000	-	-
Executives							
A Baum	-	333,333	-	-	333,333	-	-
N Barker	1,060,000	333,333	(280,000)	-	1,113,333	-	280,000
S McDonagh	300,000	-	-	(300,000)	-	-	-
M Radotic	580,000	100,000	-	-	680,000	-	280,000
G Varma	336,667	100,000	-	(186,667)	250,000	-	-
G Parry	580,000	200,000	-	-	780,000	-	280,000
	Held at 1 January 2009	Granted as compensation	Exercised	Lapsed or forfeited	Held at 31 December 2009	Vested during the year	Vested and exercisable at 31 December 2009
Directors							
P Mansell	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-
N Montarello	2,800,000	1,000,000	-	(1,400,000)	2,400,000	1,400,000	1,400,000
Executives							
N Barker	560,000	500,000	-	-	1,060,000	373,333	560,000
S McDonagh	-	300,000	-	-	300,000	-	-
M Radotic	280,000	300,000	-	-	580,000	280,000	280,000
G Varma	186,667	150,000	-	-	336,667	93,333	186,667
G Parry	280,000	300,000	-	-	580,000	280,000	280,000

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29 Related Party Disclosures (cont.)

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:

2010	Held at 1 January 2010	Purchases	Rights issue	Sales	Received on exercise of options	Granted as compensation	Held at 31 December 2010*
Directors							
P Mansell	1,550,000	-	-	-	-	-	n/a
S Penglis	1,060,500	-	212,100	-	-	-	1,272,600
D Griffiths	1,800,000	-	360,000	-	-	-	2,160,000
F de Vicente	-	-	-	-	-	-	-
N Montarello	17,404,565	1,134,819	3,480,913	-	-	-	22,020,297
Executives							
A Baum	-	5,800	271,110	-	-	350,000	626,910
N Barker	172,999	-	95,000	-	280,000	-	547,999
S McDonagh	111,000	-	-	(46,100)	-	-	n/a
M Radotic	35,000	-	-	-	-	-	35,000
G Varma	398,333	-	43,114	(256,365)	-	-	185,082
G Parry	25,357	-	-	-	-	-	25,357
2009							
	Held at 1 January 2009	Purchases	Sales	Received on exercise of options	Held at 31 December 2009		
Directors							
P Mansell	1,300,000	250,000	-	-	1,550,000		
S Penglis	1,610,500	-	(550,000)	-	1,060,500		
D Griffiths	1,613,360	186,640	-	-	1,800,000		
N Montarello	17,253,192	151,373	-	-	17,404,565		
Executives							
N Barker	172,999	-	-	-	172,999		
S McDonagh	51,000	60,000	-	-	111,000		
M Radotic	35,000	-	-	-	35,000		
G Varma	398,333	-	-	-	398,333		
G Parry	25,357	-	-	-	25,357		

n/a: Personnel have resigned before reporting date. The share movement only relates to the period up to their respective resignation dates.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29 Related Party Disclosures (cont.)

* The following shares are subject to escrow as at 31 December 2010 (refer to note 20 (b)(ii):

	Held at 31 December 2010
Executive	
A Baum	350,000

Parent

The parent entity of the Group is ThinkSmart Limited.

30 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.

31 Earnings per Share

	2010 Cents per share	2009 Cents per share
Basic earnings per share		
From continuing operations	6.52	5.35
Diluted earnings per share		
From continuing operations	6.29	5.26

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2010 \$	2009 \$
Profit after tax from continuing operations	<u>6,773,013</u>	<u>5,171,776</u>
Earnings used in the calculation of basic EPS from continuing operations	<u>6,773,013</u>	<u>5,171,776</u>
	2010 Number	2009 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>103,818,543</u>	<u>96,689,390</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31 Earnings per Share (cont.)

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2010	2009
	\$	\$
Profit after tax from continuing operations	6,773,013	5,171,776
Earnings used in the calculation of diluted EPS from continuing operations	<u>6,773,013</u>	<u>5,171,776</u>

	2010	2009
	Number	Number
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	103,818,543	96,689,390
Shares deemed to be issued for no consideration in respect of:		
Employee options	<u>3,925,035</u>	<u>1,693,407</u>
Weighted average number of ordinary shares used in the calculation of diluted EPS	<u>107,743,578</u>	<u>98,382,797</u>

At 31 December 2010, 3,393,333 options (2009: 3,386,667) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

32 Parent entity disclosures

As at, and throughout, the financial year ending 31 December 2010, the parent entity of the Group was ThinkSmart Limited.

	2010	2009
	\$	\$
Result of parent entity		
Profit for the period	492,256	1,772,102
Other comprehensive income	-	-
Total comprehensive income for the period	492,256	1,772,102
Financial position of parent entity at year end		
Current assets	12,353,442	69,109
Total assets	39,391,828	23,617,470
Current liabilities	3,405,428	2,474,892
Total liabilities	3,662,416	2,474,892
Total equity of the parent entity comprising of:		
Share capital	39,615,237	23,614,091
Share based payment reserve	230,947	199,726
Retained earnings	(4,116,772)	(2,671,239)
Total equity	35,729,412	21,142,578

Parent entity contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement

	Note	2010	2009
		\$	\$
Contingent liabilities considered unlikely			
Performance guarantees	(a)	7,000,000	7,000,000

(a) A bank guarantee has been issued on behalf of the parent entity, to an unrelated party, in relation to the performance of a subsidiary in the management of a portfolio of rental agreements. In the event of a default, the third party can call upon the bank guarantee to offset losses it incurs as a result of the default.

The parent entity has provided a commitment to continue its financial support of RentSmart Unit Trust, ThinkSmart Europe Ltd and RentSmart Ltd to enable the subsidiaries to pay their debts as and when they fall due. The Company will not call for the repayment of its loan until RentSmart Unit Trust, ThinkSmart Europe Ltd and RentSmart Ltd are in a financial position to make such a payment without affecting its operational capabilities.



Independent auditor's report to the members of ThinkSmart Limited

We have audited the accompanying financial report of ThinkSmart Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

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



Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of ThinkSmart Limited for the year ended 31 December 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Denise McComish
Partner

Perth

18 February 2011