

APPENDIX 4E

ANNUAL REPORT

THINKSMART LIMITED

ACN 092 319 698

YEAR ENDED 31 DECEMBER 2012

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

Current period:	1 January 2012 to 31 December 2012
Prior corresponding period:	1 January 2011 to 31 December 2011

- 2 Results for announcement to the market

Key Information	Year Ended 31 December 2012 \$'000	Year Ended 31 December 2011 \$'000	Decrease on Previous Period \$'000	Decrease on Previous Period %
Net operating income	35,483	45,062	(9,579)	(21%)
(Loss)/profit after tax attributable to members of ThinkSmart Limited	(1,441)	6,798	(8,239)	(121%)

Dividends	Amount per security	Franked amount per security
Current period - 2012		
Nil		
Previous corresponding period - 2011		
Nil		

Record date for determining entitlements to the dividends
n/a

Brief explanation on Revenue, Net Profit and Dividends
Refer to the 2012 annual report.

- 3 Consolidated statement of comprehensive income

Refer to the 2012 annual report.

- 4 Consolidated statement of financial position

Refer to the 2012 annual report.

- 5 Consolidated statement of cash flows

Refer to the 2012 annual report.

6 Consolidated statement of changes in equity

Refer to the 2012 annual report.

7 Dividend details

Refer to the 2012 annual report.

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 2012	Year Ended 31 December 2011
	\$	\$
Ordinary shares	0.19	0.20

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 LTI Pty Limited	19 July 2012

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 2012 annual report.

13 Foreign entities

Refer to the 2012 annual report.

14 Commentary on results for the financial year

Refer to the 2012 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 2012

THINKSMART LIMITED
CONTENTS PAGE

	Page
Directors' Report	1
Auditor's Independence Declaration	20
Directors' Declaration	21
Consolidated Income Statement	22
Consolidated Statement of Comprehensive Income	23
Consolidated Statement of Financial Position	24
Consolidated Statements of Changes in Equity	25
Consolidated Statement of Cash Flow	26
Notes to the Financial Statements	27
Independent Auditor's Report	75
Corporate Information	77

THINKSMART LIMITED DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the “Group”) consisting of ThinkSmart Limited (“the Company” or “ThinkSmart”) and the entities it controlled at the end of, or during, the financial year ended 31 December 2012.

DIRECTORS

The following persons were Directors of the Company during the financial year and until the date of this report.

Names, qualifications, experience and special responsibilities

Ned Montarello

Executive Chairman and Chief Executive Officer

Ned was appointed Executive Chairman on 22 May 2010. Ned has over 28 years experience in the finance industry. He founded ThinkSmart in 1996 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. Ned led the development of the Group’s Australian distribution network by building partnerships with key retailers, including JB Hi-Fi and Dick Smith. Ned also steered the expansion of the business into Europe, establishing agreements with DSG International to launch in the UK.

David Griffiths

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

Non-Executive Director, Deputy Chairman

David joined the Board on 28 November 2000 and was appointed Deputy Chairman on 22 May 2010. David has over 14 years experience in investment banking, most recently as Division Director of Macquarie Bank Limited and previously as Executive Chairman of Porter Western Limited. He holds an Honours Degree in Economics and an honorary Doctor of 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 sits on the Board of the Perth International Arts Festival and is currently Chairman of Automotive Holdings Group Limited and Northern Iron Limited. David is currently Chair of the Audit and Risk Committee of ThinkSmart.

Steven Penglis

B. Juris and B. Law

Non-Executive Director

Steven joined the Board on 1 July 2000 and stepped down as Chairman on 6 May 2007. Until 30 September 2012, Steven was a partner of Freehills, having been appointed to the partnership on 1 July 1987. Steven now practises solely as a barrister, specialising in the area of corporate and Corporations Law litigation. He is a part time Senior Member of the Commonwealth Administrative Appeals Tribunal, a former elected member and Chairman of the Legal Practice Board of Western Australia and a former elected member of the Council of the Law Society of Western Australia (having served from 1 January 2002 to 31 December 2012). Steven is currently Chairman of the Nomination & Remuneration Committee of ThinkSmart.

Fernando de Vicente

B. Econ, MBA Bus

Non-Executive Director

Fernando is a citizen of Spain who joined the Board on 7 April 2010. Fernando has a Degree in Economics (International Development) from the University Complutense in Madrid, and an Executive MBA from IESE Business School in Madrid. Fernando 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.

Fernando 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, Fernando left DSG to become the Executive Chairman of BodyBell Group, one of Spain’s largest speciality retailers. On 15 February 2012, Fernando was appointed Non-Executive Director of Levantina, a multinational company dealing in natural stone products.

THINKSMART LIMITED

DIRECTORS' REPORT

Nancy Fox

BA, JD (Law), FAICD

Non-Executive Director

Nancy joined the Board on 10 October 2011 and the Audit and Risk Committee on 25 November 2011. Nancy is currently Chairman of Adelaide Managed Funds Limited, a subsidiary of Bendigo & Adelaide Bank and is also a board member of APA Ethane Limited, the responsible entity of the Ethane Pipeline Income Fund (EPX), HCF Life, the Taronga Conservation Society of Australia and the Australian Theatre for Young People. Nancy is also a council member of the Energy Security Council.

Nancy was previously the Managing Director of Ambac Assurance Corporation with responsibility for the Asia Pacific Region. Prior to joining Ambac, Nancy was an investment banker for over 15 years and has held a number of senior positions as head of securitisation and structured finance at ABN AMRO, AIDC and Citibank. Before moving to investment banking, she was an attorney in New York. Nancy was a National Committee member of the Australian Securitisation Forum for 9 years and received the Australian Securitisation Forum's inaugural Distinguished Service Award in 2005.

COMPANY SECRETARY

Alistair Stevens

BA (Hons), ACA

Company Secretary and Chief Financial Officer

Alistair was appointed Company Secretary on 28 March 2012. Alistair is a Chartered Accountant who previously served as Deputy Chief Financial Officer of BSKYB plc, one of the top 30 companies in the UK. Alistair held a number of senior roles at BSKYB plc, including Director of Commercial Finance. Alistair has extensive Board and listed company experience, including in the role of Chairman of the Living TV Group and as Director of companies such as National Geographic (Europe) Limited and The History Channel Limited.

PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the provision of lease and rental financing services in Australia and the UK and the supply of interest free payment plans in Australia.

OPERATING AND FINANCIAL REVIEW

The Group recorded a loss after tax for the year ended 31 December 2012 of \$1.441m (2011: profit after tax of \$6.798m). The performance of the Australian business adversely impacted the Group result due to the adoption of lease accounting for the majority of new business sales during the year and challenging trading conditions in the electronic retailer sector which reduced business volumes. In contrast, the UK business achieved a record profit contribution before tax, up 26% on 2011.

The UK business generated a profit contribution before tax of \$7.738m (2011: \$6.135m). New business volumes from the Group's consumer rental product, *Infinity*, more than doubled with the value of rental equipment financed reaching \$17.811m (2011: \$7.909m). These record sales levels were due to a combination of a compelling consumer proposition and strong in-store promotion by Dixons, the UK business's key retail partner.

In Australia, difficult trading conditions for electronic retailers contributed to a reduction in the value of rental equipment financed of 29% to \$18.358m (2011: \$25.852m). Deep discounting by retailers contributed to a reduction in both the volume of rental transactions and the average value of each transaction.

During 2012, the Australian business completed the transition of its funding from a brokerage model to a securitisation model, which provides a more profitable funding platform with greater access to funding. As a consequence of this change in model, the business commenced lease accounting for rental contracts; lease accounting utilises the effective interest method to spread the profit of a rental contract over its term rather than booking the profit on origination as was the case with the brokerage model. Principally as a result of these factors the Australian business contributed a loss before tax of \$4.327m (2011: profit before tax contribution of \$8.689m).

In the first half of 2012, the Australian business launched a new payment plan product, *Fido*. This product is designed to complement the existing rental product, *RentSmart*, and to build market share in the fast growing "interest free" sector of consumer finance. *Fido* appeals to a wide range of retailers across multiple sectors as the "no interest ever" offering can be attached to a wide

THINKSMART LIMITED DIRECTORS' REPORT

range of consumer products. During 2012, the Group has created a number of new retail partnerships for *Fido* in categories including jewellery, solar and home improvement. Sales volumes increased steadily through the second half of 2012 with the financed value of *Fido* sales totalling \$4.024m (2011: nil) for the year.

In March 2012, the Group completed a fully underwritten non-renounceable entitlement offer. This share issue raised \$9.100m (before transaction costs) of capital which was principally used to fund the launch of new products in Australia and the UK.

At 31 December 2012, the Group's total cash and cash equivalents was \$18.568m (2011: \$4.610m), including \$6.008m of available cash (2011: \$2.582m). Restricted cash invested in the Group's funding structures was \$12.560m (2011: \$2.028m).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year, the Group's Australian operations significantly transformed its funding arrangements as described in the Operating and Financial Review and the financial statements and the notes thereto. There were no other significant changes in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

DIVIDENDS

There were no dividends declared and paid by the Company since the end of the previous financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 04 February 2013, ThinkSmart announced that it had extended its contractual relationship with JB Hi-Fi Limited to the second half of 2015. As part of the agreement, ThinkSmart and JB Hi-Fi agreed to offer ThinkSmart's payment plan product, *Fido*, to JB Hi-Fi's customers throughout the term of the new agreement.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings held during the financial year.

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meeting	
	A	B	A	B	A	B
N Montarello	15	15	2*	2	-	-
D Griffiths	15	15	2	2	1	1
S Penglis	15	15	2	2	1	1
F de Vicente	14	15	1*	2	1	1
N Fox	15	15	2	2	1*	1

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

THINKSMART LIMITED DIRECTORS' REPORT

DIRECTORS' INTERESTS

The relevant interests of each Director in ThinkSmart Limited shares and options at the date of this report are as follows:

	<u>Number of ordinary shares</u>	<u>Options granted over ordinary shares</u>
N Montarello	29,559,356	3,000,000
D Griffiths	2,592,001	-
S Penglis	1,272,600	-
F de Vicente	356,500	-
N Fox	81,600	-

Unissued Shares under Options

At the date of this report there were 6,366,667 unissued ordinary shares of the Company subject to option or performance rights, comprising:

<u>Number of shares under option</u>	<u>Exercise price of options</u>	<u>Expiry date of options</u>
2,166,667	\$0.62	31 December 2013
1,833,334	\$1.11	31 December 2014
1,966,666	\$0.84	31 December 2015
400,000	\$0.19	09 August 2017

All options expire on the earlier of their expiry date or the termination of the option holder's employment. Further details are included in the remuneration report on pages 4 to 14. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

REMUNERATION REPORT - Audited

This Report details the remuneration arrangements for Key Management Personnel. Key Management Personnel encompass all Directors and those Executives that have specific responsibility for planning, directing and controlling material activities of the Group. In this report, "Executives" refers to the Key Management Personnel excluding the Non-Executive Directors. The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the Corporations Act 2001. This Report contains the following sections:

- A: Principles of remuneration
- B: Key Management Personnel remuneration
- C: Service agreements
- D: Share-based compensation (loan-funded shares and options)
- E: Share-based compensation
- F: Bonus remuneration

THINKSMART LIMITED

DIRECTORS' REPORT

A. Principles of Remuneration

Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group and comprise:

Executive Director

N Montarello (Executive Chairman and Chief Executive Officer)

Non-Executive Directors

D Griffiths (Deputy Chairman)

S Penglis (Non-Executive Director)

F de Vicente (Non-Executive Director)

N Fox (Non-Executive Director)

Executives

A Baum (Group Chief Operating Officer)

G Halton (Managing Director (acting) – UK) – appointed to role on 1 October 2012, previously European Chief Financial Officer

A Stevens (Group Chief Financial Officer) – appointed 28 March 2012

G Varma (Group Chief Information Officer)

A Deller (Managing Director – Europe) – from 23 January 2012 to 30 September 2012

J Ferreira (Group Chief Financial Officer (acting)) – until 28 March 2012

S McDonagh (Head of Product & Marketing) – until 30 November 2012

G Parry (Managing Director – UK) – until 30 April 2012

The Board recognises that the Company's performance depends upon the quality of its staff. To achieve its financial and operating objectives, the Company must attract, motivate and retain highly skilled Directors and Executives. To this end, the remuneration structure seeks to:

- Provide competitive rewards to attract, retain and motivate talented Directors and Executives;
- Align incentive rewards with the Company's short term and long term objectives by including a significant portion of Executive remuneration "at risk" as short term and long term incentives;
- Set demanding performance hurdles which are clearly linked to an Executive's remuneration; and
- Structure remuneration at a level that reflects the Executive's duties and responsibilities and is competitive within the sector.

The remuneration structures take into account:

- the capability and experience of the individual;
- the individual's ability to control the relevant segment's performance; and
- the performance of the Group.

The Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages trends in comparative companies and markets, both locally and internationally, and the objectives of the Company's remuneration strategy.

Remuneration packages include a mix of fixed and variable remuneration with a blend of short-term and long-term performance-based incentives. The variable remuneration components are directly linked to both the performance of the Group and the performance of the Company's share price. This ensures close alignment of remuneration of Key Management Personnel and the creation of shareholder value.

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 or loan-funded shares.

Non-Executive Directors' Fees

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool of \$600,000 and was approved by shareholders at a previous general meeting. The total fees paid in the 2012 financial year were \$253,217. In addition to these fees, Directors also receive superannuation contributions as required under government legislation. The Company also pays all reasonable expenses incurred by Directors attending meetings and carrying out their duties.

THINKSMART LIMITED DIRECTORS' REPORT

Executive Pay

The Group's executive remuneration structure has four components which comprise the Executive's total remuneration:

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

Base Pay – Fixed Compensation

Executives are offered a competitive salary that comprises the components of base pay and benefits. Base pay for Executives is reviewed annually by the Nomination and Remuneration Committee or the Executive Chairman to ensure the Executive's pay is competitive with the market and appropriate to the Executive's experience, responsibilities and contribution. An Executive's pay is also reviewed on promotion. Base pay for the Executive Chairman is reviewed annually by the 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); and
- a component of the STI is linked to the financial performance of the Group determined at the beginning of each financial year.

Using various performance targets and personal performance objectives the Group ensures variable reward is only paid when value has been created for shareholders. The performance measures include financial, such as Profit Before Tax and the value of new originations, and non-financial, including KPIs targeting high levels of customer service and new retail partner acquisition. The STI bonus is delivered in the form of cash.

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 Nomination and Remuneration Committee or the Executive Chairman. The STI targets are reviewed annually. Information on the STI is detailed in section F of the Remuneration Report.

Long-Term Performance Incentive

Long-term performance incentives are awarded to Key Management Personnel and other Executives. Prior to 2012, incentives were awarded under the Company's Executive Share Option Plan. In May 2012, shareholders approved a Long Term Incentive Plan designed to increase the motivation of staff and to create a stronger link between increasing shareholder value and employee award. The details of these schemes are set out on pages 7 to 9.

Consequences of Performance on Shareholder Wealth

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2012	2011	2010	2009	2008
(Loss)/profit attributable to owners of the company (\$000s)	(\$1,441)	\$6,798	\$6,773	\$5,172	\$3,211
Basic EPS	(0.95) cents	5.23 cents	6.52 cents	5.35 cents	3.34 cents
Dividends paid	-	\$4,545,779	\$1,937,788	\$2,900,682	\$1,933,788
Dividend paid per share	-	3.5 cents	2 cents	3 cents	2 cents
Share price at year end	\$0.19	\$0.41	\$0.73	\$0.90	\$0.17
Change in share price	(\$0.22)	(\$0.32)	(\$0.17)	\$0.73	(\$1.75)
Return on capital employed	(5%)	18%	36%	34%	22%

THINKSMART LIMITED
DIRECTORS' REPORT

The table below sets out the details of the performance options issued to Executives in 2009, 2010 and 2011:

Instrument	Each option represents an entitlement to one ordinary share.
Exercise price	Performance Options Tranche 1 - \$0.62 Performance Options Tranche 2 - \$1.11 Performance Options Tranche 3 - \$0.84
Vesting conditions	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: <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. 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.
EPS performance target	The Group's EPS growth will be measured relative to a target of more than 7.5% per annum compound growth.
EPS performance period	Performance Options Tranche 1: 3 year period commencing 1 January 2009 with the base year being the period ended 31 December 2008. Performance Options Tranche 2: 3 year period commencing 1 January 2010 with the base year being the period ended 31 December 2009. Performance Options Tranche 3: 3 year period commencing 1 January 2011 with the base year being the period ended 31 December 2010.
TSR performance target	The Group will be given a 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 percentage of the TSR reward that vests will be determined by the Group's ranking as follows: <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%
TSR performance period	Performance Options Tranche 1: As at 1 January 2009 Performance Options Tranche 2: As at 1 January 2010 Performance Options Tranche 3: As at 1 January 2011
Why vesting conditions are chosen	The vesting conditions (EPS and TSR) were chosen as performance conditions as they are aligned to earnings growth and the creation of shareholder value.
Vesting date	Performance Options Tranche 1: 1 January 2012 Performance Options Tranche 2: 31 December 2012 Performance Options Tranche 3: 31 December 2013
Exercise period	Performance Options Tranche 1: From vesting date to expiry date Performance Options Tranche 2: From vesting date to expiry date Performance Options Tranche 3: From vesting date to expiry date

THINKSMART LIMITED
DIRECTORS' REPORT

Expiry date	Performance Options Tranche 1: 31 December 2013 Performance Options Tranche 2: 31 December 2014 Performance Options Tranche 3: 31 December 2015
Disposal restriction	No disposal restriction imposed at the time of this grant.

During 2012, the Board implemented a new loan-funded share plan for Executives located in Australia, following shareholder approval in May 2012. The limited recourse loans to acquire shares are issued to Executives and the ability to exercise the shares is conditional on the Group achieving the pre-determined performance criteria. The table below sets out the details of the loan-funded share plan:

Instrument	Each loan-funded share represents an entitlement to one ordinary share.
Limited recourse loan	The company is providing interest-free, limited recourse loans to Executives to acquire shares. The limited recourse loan means that if the shares do not vest for any reason or the value of the shares is less than the outstanding loan value when it is required to be repaid, the participant's liability is limited to the value of the shares.
Exercise price	Tranche 1 - \$0.1923 Tranche 2 - \$0.1923 Tranche 3 - \$0.1923
Vesting conditions	Shares will vest at the end of the three years from the issue date if at any time during this period the volume-weighted average price of the Company's shares on ASX over any consecutive 30 trading days is, or is in excess of, the following performance conditions. Performance conditions for Tranche 1: \$0.35 Performance conditions for Tranche 2: \$0.55 Performance conditions for Tranche 3: \$0.75 The number of shares that will vest if the above performance conditions are met are; Tranche 1: 25% of total shares Tranche 2: 25% of total shares Tranche 3: 50% of total shares Vesting is subject to the Executive remaining an employee of the Group.
Why vesting conditions are chosen	The vesting conditions were chosen to align the financial interests of participants with those of shareholders.
Vesting date	10 August 2015
Performance period	10 August 2012 to 10 August 2015
Exercise period	From vesting date until expiry date
Expiry date	09 August 2017

THINKSMART LIMITED
DIRECTORS' REPORT

For Executives located in the UK, the Group issued share options under a similar structure to the employee share option plan outlined on page 8. The table below sets out the details of the 2012 employee share option plan:

Instrument	Each option represents an entitlement to one ordinary share.
Exercise price	Tranche 1 - \$0.1923 Tranche 2 - \$0.1923 Tranche 3 - \$0.1923
Vesting conditions	Options will vest at the end of the three years from the issue date if at any time during this period the volume-weighted average price of the Company's shares on ASX over any consecutive 30 trading days is, or is in excess of, the following performance conditions. Performance conditions for Tranche 1: \$0.35 Performance conditions for Tranche 2: \$0.55 Performance conditions for Tranche 3: \$0.75 The number of options that will vest if the above performance conditions are met are; Tranche 1: 25% of total option Tranche 2: 25% of total option Tranche 3: 50% of total option Vesting is subject to the Executive remaining an employee of the Group.
Why vesting conditions are chosen	The vesting conditions were chosen to align the financial interests of participants with those of shareholders.
Vesting date	10 August 2015
Performance period	10 August 2012 to 10 August 2015
Exercise period	From vesting date until expiry date
Expiry date	09 August 2017

B. Key Management Personnel Remuneration

Services from Remuneration Consultants

The Nomination and Remuneration Committee engaged Deloitte Touche Tohmatsu as remuneration consultant to the Board to provide recommendations on the loan-funded share plan and conduct a review of the remuneration of the Executive Chairman. This work was ultimately completed by Towers Watson after Deloitte Touche Tohmatsu Australia exited the board and executive remuneration advisory business during the course of the work.

Deloitte Touche Tohmatsu was paid \$16,000 for the remuneration recommendations in respect of reviewing the Executive Chairman's remuneration and the loan-funded share plan. Towers Watson was paid \$29,000 for the remuneration recommendations in respect of reviewing Executive Chairman remuneration and the loan-funded share plan.

The consultant was chosen by the Remuneration Committee. No member of the Committee was a person to whom the advice and recommendations sought applied. The Communications between the Committee and the consultant were principally conducted on behalf of the Committee by the Chairperson of the Committee. There were no communications passing between the consultant and the executives on the subject of the recommendation concerning the substance of the advice and recommendations sought.

Amount of Remuneration

Details of the remuneration of the Directors and the Key Management Personnel (as defined in AASB 124 Related Party Disclosures) of the Group are set out in the following tables.

THINKSMART LIMITED
DIRECTORS' REPORT

		Short Term				Post employment		Other long term	Share-based payments		Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits	Termination benefits	Long service entitlement	Options & rights #	Shares			
		\$	\$	\$	\$	\$	\$	\$	\$	\$			
Directors													
Non-Executive Directors													
D Griffiths	2012	66,375	-	-	66,375	5,974	-	-	-	-	72,349	-	-
	2011	67,500	-	-	67,500	6,075	-	-	-	-	73,575	-	-
S Penglis	2012	62,442	-	-	62,442	5,620	-	-	-	-	68,062	-	-
	2011	63,500	-	-	63,500	5,714	-	-	-	-	69,214	-	-
F de Vicente	2012	65,400	-	-	65,400	-	-	-	-	-	65,400	-	-
	2011	54,895	-	-	54,895	9,255	-	-	-	-	64,150	-	-
N Fox	2012	59,000	-	-	59,000	5,310	-	-	-	-	64,310	-	-
	2011	13,452	-	-	13,452	1,211	-	-	-	-	14,663	-	-
Executive Director													
N Montarello	2012	675,264	-	1,368	676,632	37,500	-	56,460	254,895	-	1,025,487	25%	25%
	2011	652,639	149,753	2,206	804,598	54,167	-	(36,094)	232,491	-	1,055,162	36%	22%
Executives													
A Baum	2012	412,157	-	1,368	413,525	25,000	-	-	5,556	96,333	540,414	1%	1%
	2011	436,410	-	2,206	438,616	27,500	-	-	68,351	81,889	616,356	11%	11%
G Halton*	2012	176,355	-	382	176,737	4,447	-	-	26,878	-	208,062	13%	13%
	2011	-	-	-	-	-	-	-	-	-	-	-	-
A Stevens*	2012	240,766	-	1,026	241,792	18,351	-	-	8,333	-	268,476	3%	3%
	2011	-	-	-	-	-	-	-	-	-	-	-	-
G Varma	2012	276,601	-	1,368	277,969	24,750	-	12,604	28,545	-	343,868	8%	8%
	2011	266,994	31,687	2,206	300,887	26,789	-	(641)	23,597	-	350,632	16%	7%
N Barker†	2012	-	-	-	-	-	-	-	-	-	-	-	-
	2011	160,647	113,000	1,103	274,750	28,716	29,092	-	38,973	-	371,531	41%	10%
A Deller*	2012	230,773	-	1,039	231,812	4,160	93,388	-	-	-	329,360	0%	0%
	2011	-	-	-	-	-	-	-	-	-	-	-	-
J Ferreira*	2012	124,439	-	456	124,895	6,750	-	-	(39,595)	-	92,050	(43%)	(43%)
	2011	215,406	31,228	2,206	248,840	21,728	-	-	28,957	-	299,525	20%	10%
S McDonagh*	2012	221,257	25,000	1,254	247,511	20,971	-	-	(19,253)	-	249,229	2%	(8%)
	2011	80,775	-	552	81,327	7,476	-	-	13,457	-	102,260	13%	13%
G Parry*	2012	90,412	-	616	91,028	-	60,435	-	(73,749)	-	77,714	(95%)	(95%)
	2011	154,567	28,329	6,244	189,140	100,210	-	-	47,193	-	336,543	22%	14%
Total	2012	2,701,241	25,000	8,877	2,735,118	158,833	153,823	69,064	191,610	96,333	3,404,781	6%	6%
Total	2011	2,166,785	353,997	16,723	2,537,505	288,841	29,092	(36,735)	453,019	81,889	3,353,611	24%	14%

The fair value of the options and loan funded shares is calculated at the date of grant using the Binomial Tree and Monte-Carlo Simulation option and pricing models and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

* - During the year, the Key Management Personnel has either resigned or been appointed. † - This information is provided for comparative purposes. # - Includes loan-funded share rights.

THINKSMART LIMITED
DIRECTORS' REPORT

C. Service Agreements

A service agreement can be used for the provision of short-term performance incentives, eligibility for the ThinkSmart LTI and other benefits, including the use of a Company motor vehicle, tax advisory fees, payment of benefits forgone at a previous employer and relocation expenses.

Only remuneration and other terms of employment for the Chief Executive Officer are formalised in a service agreement. The Chief Executive Officer's employment agreement, signed on 21 August 2012, is a rolling agreement which is unlimited in term but capable of termination with six months notice by either party. 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 10 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 (loan-funded shares and option)

Loan-Funded Shares and Options

Details of ordinary shares in the Company that were granted as part of the loan-funded share plan to Key Management Personnel in August 2012, and the options over ordinary shares in the Company that were granted to Key Management Personnel in August 2012 and details on options that vested during the reporting period are as follows:

	No of options/shares granted during 2012	Grant date	Fair value per share at grant date \$	Exercise price per share \$	Expiry date	No of shares vested during 2012
Directors						
N Montarello	1,000,000	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-
Executives						
A Baum	333,333	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-
A Stevens	500,000	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-
G Halton	100,000	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-
G Varma	200,000	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-
S McDonagh	200,000	10/08/2012	0.02 – 0.06	0.19	09/08/2017	-

All shares and options were granted during the financial year. The shares and options are subject to Performance Conditions as set out on pages 8 and 9. The options are provided at no cost to the recipients. No shares have been granted since the end of the financial year.

During the financial year, no shares were issued as a result of the exercise of options.

THINKSMART LIMITED
DIRECTORS' REPORT

Details of vesting profiles of the options and loan-funded shares granted as remuneration to each Director of the Company and other Key Management Personnel are detailed below:

	Options and loan funded shares granted		% vested in year	% forfeited in year (a)	Financial year in which grant vests
	Number granted	Grant Date			
Director					
N Montarello	1,000,000	30/06/2009	100%	-%	2012
	1,000,000	05/05/2010	-%	-%	2013
	1,000,000	11/04/2011	-%	-%	2014
	1,000,000	10/08/2012	-%	-%	2015
Executives					
A Baum	333,333	01/09/2010	-%	-%	2013
	333,333	11/04/2011	-%	-%	2014
	333,333	10/08/2012	-%	-%	2015
G Halton	150,000	30/06/2009	100%	-%	2012
	100,000	05/05/2010	-%	-%	2013
	100,000	11/04/2011	-%	-%	2014
	100,000	10/08/2012	-%	-%	2015
A Stevens	500,000	10/08/2012	-%	-%	2015
G Varma	150,000	30/06/2009	100%	-%	2012
	100,000	05/05/2010	-%	-%	2013
	100,000	11/04/2011	-%	-%	2014
	200,000	10/08/2012	-%	-%	2015
J Ferreira	150,000	30/06/2009	100%	-%	2012
	100,000	05/05/2010	-%	100%	2013
	150,000	11/04/2011	-%	100%	2014
S McDonagh	250,000	25/07/2011	-%	-%	2014
	200,000	10/08/2012	-%	100%	2015
G Parry	300,000	30/06/2009	100%	-%	2012
	200,000	05/05/2010	-%	100%	2013
	200,000	11/04/2011	-%	100%	2014

(a) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to either the performance conditions attached to the options not being met or the departure of the Executive from the Group.

THINKSMART LIMITED
DIRECTORS' REPORT

Analysis of Movement of Options and Loan-Funded Shares

The movement during the reporting period, by value, of options and loan-funded shares over ordinary shares in the Company held by Directors and Key Management Personnel is detailed below:

	Granted in year (a) \$	Exercised in year (b) \$	Lapsed in year (c) \$
Directors			
N Montarello	35,000	-	-
Executives			
A Baum	11,667	-	-
G Halton	3,500	-	-
A Stevens	17,500	-	-
G Varma	7,000	-	-
J Ferreira	-	-	98,305
S McDonagh	7,000	-	7,000
G Parry	-	-	156,210
	81,667	-	261,515

- (a) The value of loan-funded shares granted in the year is the fair value of the loan-funded shares calculated at grant date using a monte-carlo option-pricing model. This total 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/was forfeited using original fair value.

E. Share-Based Compensation (shares)

Details of shares of the Company that were granted as remuneration to each Key Management Personnel and details on shares vested during the reporting period are as follows:

	Number of shares granted during 2012	Grant date	Fair value at grant date (\$)	Vesting period	Number of shares vested during 2012
Executives					
A Baum	125,000	03/10/2012	0.18	3 years	-

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

THINKSMART LIMITED
DIRECTORS' REPORT

Analysis of Shares Granted as Remuneration

Details of vesting profiles of the shares granted as remuneration to the Director and Key Management Personnel of the Company are detailed below.

	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 Baum	125,000	01/09/2011	-%	-%	2014
A Baum	125,000	03/10/2012	-%	-%	2015

- (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

The movement during the reporting period, by value of shares in the Company held by the Directors and Key Management Personnel is detailed below.

	Granted in year (a)	Vested in year (b)	Lapsed in year (c)
	\$	\$	\$
Executives			
A Baum	22,500	-	-

- (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 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

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to the Director and Key Management Personnel of the Company are detailed below:

	Included in remuneration (a)	Short term incentive bonus		% forfeited in year (b)
		Maximum entitlement	% vested in year	
	\$	\$		
Directors				
N Montarello	-	258,324	0.00%	100.00%
Executives				
A Baum	-	170,000	0.00%	100.00%
G Varma	-	53,400	0.00%	100.00%
J Ferreira	-	60,000	0.00%	100.00%
S McDonagh	25,000	50,000	50.00%	50.00%
G Parry	-	69,904	0.00%	100.00%

- (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 pertaining to the 2011 financial year. No amounts vest in future financial years.
- (b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

No bonuses were awarded to Key Management Personnel with respect to the 2012 financial year.

THINKSMART LIMITED

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of ThinkSmart Limited is responsible for and committed to ensuring that the Company complies with the ASX Corporate Governance Council's Guide "Corporate Governance Principles and Recommendations".

Board of Directors

Composition of the Board

At the date of this statement, the Board comprises four Non-Executive Directors, all of whom are independent, and one Executive Chairman and Chief Executive Officer. The names of the Directors, including details of their qualifications and experience, at the date of this report are set out on page 1 and 2 of this report. The composition of the Board is determined using the following principles:

- 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.
- The Board considers the diversity of existing and potential Directors. The Board's policy is to seek a diverse range of Directors who have a range of ages, genders and ethnicity which mirrors the environment in which ThinkSmart operates.
- The Board does not believe that it should establish a limit on the tenure of the Director. While tenure limits can help to ensure that fresh ideas and viewpoints are 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.
- The Board regularly reviews the independence of each Director in light of the interests disclosed to the Board.
- A minimum of three Directors and a maximum of twelve.

The Board is conscious of the ASX Corporate Governance Guide which recommends that the roles of Chairman 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 at this stage in the Group's development that the Executive Chairman be considered the most senior Executive overseeing and supervising the Group as well as managing the Group's Executive team.

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 charter can be viewed on the Company's website (www.thinksmartworld.com). 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 the Chairman and Directors;
- appointment and removal of the Chief Executive Officer;
- development and review of corporate governance principles and policies; and
- approval of operational budgets, major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management.

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 Committees

To assist in the execution of its responsibilities, the Board may delegate responsibility to committees to consider certain issues in further detail and then report back to and advise the Board. Committees established by the Board have adopted charters setting out the authority, responsibilities, membership and operation of the committee. There are currently two committees the Audit and Risk

THINKSMART LIMITED DIRECTORS' REPORT

Committee and Nomination and Remuneration Committee. Each committee has a charter which can be viewed on the Company's website.

Audit and Risk Committee

The Committee's primary role is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of:

- the integrity of the Company's external financial reporting and financial statements;
- the Company's ongoing risk management program which is designed to effectively identify all areas of potential risk;
- policies and procedures designed and implemented to manage identified risks;
- the effectiveness of the internal control framework within the Company; and
- the appointment, independence and remuneration of the external auditor.

The Audit and Risk Committee has a documented charter, approved by the Board, which is available on the website (www.thinksmartworld.com). The Committee must comprise at least three Directors, all of whom must be Non-Executive Directors. The Chairman of the Committee may not be the Chairman of the Board. The members of the Audit and Risk Committee during the year were Non-Executive Directors, and are D Griffiths (Chairman), S Penglis and N Fox.

The Company maintains a risk management policy which can be found on the Company's website (www.thinksmartworld.com).

The Committee meets as often as the Committee members deem necessary in order to fulfil their role. The external auditors, Chief Executive Officer and Chief Financial Officer, 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.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee assists and advises the Board on the effective composition, size and capabilities to ensure the Board is prepared to discharge its responsibilities and duties expediently and in the best interests of the Company as a whole. The current members of the Committee are S Penglis (Chairman), D Griffiths, and F De Vicente.

The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Directors and Executives of the Company.

The Committee meets as often as the Committee members deem necessary in order to fulfil their role. The Committee consists of a minimum of three members, with the majority being Non-Executive Directors and with an independent Director as Chairman. The Nomination and Remuneration Committee has a documented charter, approved by the Board, which is available on the website (www.thinksmartworld.com).

Diversity

The Board is committed to having an appropriate blend of diversity on the Board and in the Group's senior executive positions. The Board is developing a policy on diversity, to complement and enhance the Anti-Discrimination and Equal Employment Opportunity Policy it displays on its intranet site. The following represents the gender diversity in the Group as at 31 December 2012:

	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Board Directors	4	1	5	80%	20%	100%
Executives	10	1	11	91%	9%	100%
Other	67	65	132	51%	49%	100%
	81	67	148	55%	45%	100%

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.

THINKSMART LIMITED DIRECTORS' REPORT

Ethical Standards

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

Conflict of Interest

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, 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 29 to the financial statements.

Code of Conduct

The Company has developed a Code of Conduct which applies to all Directors, employees, contractors, consultants and associates of the Company and sets out the ethical standards expected when conducting 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 is acknowledged by all employees.

Share Trading Policy

ThinkSmart's Guidelines for Dealing in Securities explain and reinforce the Corporations Act 2001 requirements relating to insider trading. The Guidelines apply to all Directors and employees of the 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 windows where Relevant Persons (provided they are not in possession of inside information) may buy or sell the Company's shares in the period from 31 days following:

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

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 Chairman;
- the Chairman must receive approval from the Board or the Deputy Chairman;
- executives and senior management must receive approval from the Chief Executive Officer; and
- all other Relevant Persons must receive approval from the Company Secretary.

The Guidelines for Dealing in Securities are available to view on the Company's website.

Continuous Disclosure

The Company Secretary has been nominated as the person responsible for communication with the Australian Securities Exchange ("ASX"). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. When analysts are briefed following half-year and full-year results announcements, the material used in the presentations is released to the ASX prior to the commencement of the briefing. The Company ensures that if any price sensitive information is inadvertently disclosed, this information is also immediately released to the market. The Company is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

THINKSMART LIMITED DIRECTORS' REPORT

Communication with Shareholders

The Board provides shareholders with information following the Company's Disclosure Policy which ensures compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to shareholders, the market, media and the public.

The Disclosure Policy includes the following guidelines:

- 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 the Company's website. All relevant ASX announcements will be posted on the website as soon as they have been released to ASX.
- The Company 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.

Financial Reporting

The Chief Executive Officer and Chief Financial Officer have certified to the Board that the Company's financial statements are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards. The Board receives monthly reports from management on the financial and operational performance of the Group.

Performance Assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman, the Directors and of its Committees.

Independent Professional Advice

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

Indemnification and Insurance

During the year ended 31 December 2012, the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. Disclosure of the total amount of the premium and the nature of the liabilities in respect of such insurance is prohibited by the policy.

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.

THINKSMART LIMITED DIRECTORS' REPORT

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 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

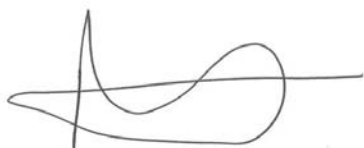
The auditor's independence declaration which forms part of this report is included in page 20 of the financial report.

ROUNDING

ThinkSmart is a Group of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as varied by Class Order 05/641 dated 28 July 2005 and Class Order 06/51 dated 31 January 2006. In accordance with those class orders, amounts in the financial statements and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

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
Chairman
Perth, 19 February 2013



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 2012 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.

KPMG

KPMG

Matthew Beevers
Partner

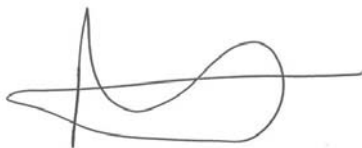
Perth

19 February 2013

THINKSMART LIMITED
DIRECTORS' DECLARATION

1. In the opinion of the Directors of ThinkSmart Limited:
 - (a) The consolidated financial statements, notes and additional disclosures in the Remuneration Report in the Directors' report, 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 2012 and of its 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(a); 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 2012.

Signed in accordance with a resolution of the Directors:



N Montarello
Chairman
Perth, 19 February 2013

Consolidated Income Statement
For the Financial Year Ended 31 December 2012

	Notes	2012 \$000	2011 \$000
Portfolio income	6(a)	24,098	19,509
Interest expense	6(c)	(4,240)	(1,292)
Net portfolio income		19,858	18,217
Commission income		12,037	21,860
Other revenue	6(b)	3,588	4,985
Net operating income		35,483	45,062
Indirect customer acquisition cost		(8,139)	(9,753)
Other operating expenses	6(d)	(21,734)	(21,044)
Depreciation and amortisation	6(e)	(3,236)	(2,261)
Impairment losses	6(f)	(4,280)	(1,591)
Restructuring costs		-	(402)
(Loss)/profit before tax		(1,906)	10,011
Income tax benefit/(expense)	7	465	(3,213)
(Loss)/profit after tax		(1,441)	6,798
(Loss)/earnings per share			
Basic (cents per share)	31	(0.95)	5.23
Diluted (cents per share)	31	(0.95)	5.23

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

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income
For the Financial Year Ended 31 December 2012

	Notes	2012 \$000	2011 \$000
(Loss)/profit for the year		<u>(1,441)</u>	<u>6,798</u>
Other comprehensive income			
Foreign currency translation differences for foreign operations		366	(65)
Effective portion of changes in fair value of cash flow hedges, net of tax		<u>118</u>	<u>(208)</u>
Other comprehensive income for the period, net of income tax		484	(273)
Total comprehensive income for the period attributable to owners of the Company		<u>(957)</u>	<u>6,525</u>

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 2012

	Notes	2012 \$000	2011 \$000
Current assets			
Cash and cash equivalents	22(a)	18,568	4,610
Trade receivables		2,803	9,930
Loan and lease receivables	9	39,164	38,419
Other current assets	8	3,571	5,337
Total current assets		64,106	58,296
Non-current assets			
Loan and lease receivables	9	23,250	28,006
Plant and equipment	11	886	874
Intangible assets	12	14,080	10,689
Goodwill	14	3,627	3,539
Deferred tax assets	7	2,352	-
Other non-current assets	10	6,644	6,777
Total non-current assets		50,839	49,885
Total assets		114,945	108,181
Current liabilities			
Trade and other payables	16	6,641	6,903
Deferred service income	17	2,977	1,380
Borrowings	18	-	2,427
Other interest bearing liabilities	19	34,300	36,731
Tax payable		516	1,607
Provisions	16	606	511
Total current liabilities		45,040	49,559
Non-current liabilities			
Deferred service income	17	1,821	1,192
Other interest bearing liabilities	19	20,063	16,991
Deferred tax liability	7	-	173
Total non-current liabilities		21,884	18,356
Total liabilities		66,924	67,915
Net assets		48,021	40,266
Equity			
Issued capital	20(a)	48,073	39,664
Reserves	21	(3,083)	(3,870)
Accumulated profits		3,031	4,472
Total equity		48,021	40,266

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 2012

Consolidated	Fully paid ordinary shares	Equity settled employee benefits reserve	Foreign currency translation reserve	Hedging reserve	Accumulated Profit	Attributable to equity holders of the parent
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2011	39,615	231	(4,367)	-	2,220	37,699
Profit for the period	-	-	-	-	6,798	6,798
Exchange differences arising on translation of foreign operations, net of tax	-	-	(65)	-	-	(65)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(208)	-	(208)
Total other comprehensive income	-	-	(65)	(208)	6,798	6,525
Total comprehensive income for the period	-	-	(65)	(208)	6,798	6,525
Transactions with owners of the Company, recognised directly in equity						
<i>Contributions by and distributions to owners of the Company</i>						
Capital raising costs	(16)	-	-	-	-	(16)
Dividends paid	-	-	-	-	(4,546)	(4,546)
Share-based payments held in escrow	65	(65)	-	-	-	-
Recognition of share-based payments	-	604	-	-	-	604
Balance at 31 December 2011	39,664	770	(4,432)	(208)	4,472	40,266
Balance at 1 January 2012	39,664	770	(4,432)	(208)	4,472	40,266
Loss for the period	-	-	-	-	(1,441)	(1,441)
Exchange differences arising on translation of foreign operations, net of tax	-	-	366	-	-	366
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	118	-	118
Total other comprehensive income	-	-	366	118	(1,441)	(957)
Total comprehensive income for the period	-	-	366	118	(1,441)	(957)
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	9,100	-	-	-	-	9,100
Capital raising costs	(714)	-	-	-	-	(714)
Share-based payments held in escrow	23	(23)	-	-	-	-
Recognition of share-based payments	-	326	-	-	-	326
Balance at 31 December 2012	48,073	1,073	(4,066)	(90)	3,031	48,021

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 2012

	Notes	2012 \$000	2011 \$000
Cash Flows from Operating Activities			
Receipts from customers		54,026	45,961
Payments to suppliers and employees		(44,127)	(27,908)
Interest received		1,271	944
Interest paid on corporate borrowings		(686)	(155)
Interest paid on other interest bearing liabilities		(3,998)	(1,130)
Payments for security guarantee		(2,542)	(1,635)
Finance charges		(51)	(1,594)
Income tax paid		(3,203)	(2,071)
Net cash from operating activities	22(b)	690	12,412
Cash Flows from Investing Activities			
Payments for plant and equipment		(418)	(341)
Payment for intangible assets – Software		(919)	(1,574)
Payment for intangible assets – Contract rights		(965)	(2,973)
Payment for leased assets		-	(36,861)
Net cash used in investing activities		(2,302)	(41,749)
Cash Flows from Financing Activities			
Proceeds from share issue		9,100	-
Payment of capital raising costs		(1,020)	-
Payment for establishing financing facilities		-	(80)
Proceeds from other interest bearing liabilities		25,570	26,490
Repayment of other interest bearing liabilities		(15,596)	(9,260)
Proceeds of borrowings		2,500	2,500
Repayment of borrowings		(5,004)	(2,500)
Dividend paid		-	(4,546)
Net cash from financing activities		15,550	12,604
Net increase/(decrease) in cash and cash equivalents		13,938	(16,733)
Effect of exchange rate fluctuations on cash held		20	157
Cash and cash equivalents at beginning of the financial year		4,610	21,186
Total cash and cash equivalents at the end of the financial year	22(a)	18,568	4,610
Restricted cash and cash equivalent at the end of the financial year		(12,560)	(2,028)
Net available cash and cash equivalent at the end of the financial year		6,008	2,582

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 2012 comprise of the Company and its subsidiaries (the “Group”). The Group is a for profit entity and its principal activity during the year was the provision of lease and rental financing services in Australia and the UK and the supply of interest free payment plans in Australia. The address of the Company’s registered office is Level 1, The West Centre, 1260 Hay Street, West Perth, WA 6005.

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 19 February 2013.

(b) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for the derivative financial instruments measured at fair value. 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

There have been no changes in accounting policies during the year.

The Group has presented a separate Consolidated Income Statement and Consolidated Statement of Comprehensive Income and certain comparative amounts in the Consolidated Income Statement have been reclassified to conform with the current year’s presentation.

(e) Accounting policies available for early adoption not yet adopted

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing this financial report. Where an assessment has been completed, none of these are expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group’s 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>). These requirements improve and simplify the approach for classification, measurement and de-recognition of financial assets compared with the requirements of AASB 139.	1-Jan-2015	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2015
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	(a) These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that set out requirements for the classification and measurement of financial assets. (b) This Standard shall be applied when AASB 9 is applied.			
AASB 2010-7	Amendments to Australian Accounting Standards arising from changes to AASB 9	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: (a) The change attributable to changes in credit risk are presented in other comprehensive income (OCI). (b) The remaining change is presented in profit or loss if this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.			
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements.	1-Jul-2013	The Group has determined there is no material impact on the Group Financial Statements.	1-Jan-2014
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard makes amendments to many Australian Accounting Standards, reducing the disclosure requirements for Tier 2 entities, identified in accordance with AASB 1053, preparing general purpose financial statements.			

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2011-4	Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements	The amendment removes the requirement to include individual key management personnel disclosures in the notes to the financial statement. These disclosures will still need to be provided in the Remuneration Report under s.300A of the Corporations Act 2001. Early adoption is not permitted.	1-Jul-2013	The Group's financial statements will exclude these disclosures in the notes to the financial statements but still disclose these in the Directors Report – remuneration report.	1-Jan-2014
AASB 10	Consolidated Financial Statements	Consolidated Financial Statements introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. AASB 10 replaces those parts of AASB 127 'Consolidated and Separate Financial Statements' that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 'Consolidation – Special Purpose Entities' in its entirety.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 11	Joint Arrangements	Amendments to these standards are concurrent with the issue of AASB 10.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 12	Disclosure of Interest in Other Entities	Key changes include: Using control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12;			
AASB 127	Separate Financial Statements	The definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee, and ability to use power over the investee to affect the investor's return;			
AASB 128	Investments in Associates	An investor would reassess whether it controls an investee if there is a change in facts and circumstances. AASB 12 'Disclosure of Interests in Other Entities' applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It serves to integrate the disclosure requirements of interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas.			

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 119 AASB 2011-10	Employee Benefits Amendments to Australian Accounting Standards arising from changes to AASB 119	Amendments will result in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.	1-Jan-2013	Amendments are not expected to have any significant impact on the Group's financial statements.	1-Jan-2013
AASB 101	Presentation of Financial Statements	The amendment changes the disclosure of items presented in OCI in the Statement of Comprehensive Income. The key changes include: Items are presented separately, in two groups in OCI, based on whether or not they may be recycled to profit or loss in the future; and Where OCI items have been presented before tax, the amount of tax related to the two groups will need to be shown.	1-Jul-2012	Amendments are not expected to have any significant impact on the Group's financial statements.	1-Jan-2013
AASB 13 AASB 2011-8	Fair value measurement Amendments to Australian Accounting Standards arising from changes to AASB 13	AASB 13 explains how to measure fair value when required to by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards.	1-Jan-2013	Amendments are not expected to have any significant impact on the Group's financial statements.	1-Jan-2013
AASB 2012-3	Amendments to Australian Accounting Standards arising from changes to AASB 132	The amendments to AASB 132 clarify when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet.	1-Jan-2014	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan 2014
AASB 2012-2	Amendments to Australian Accounting Standards arising from changes to AASB 7	AASB 7 is amended to increase the disclosures about offset positions, including the gross position and the nature of the arrangements.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan 2013

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

(a) Basis of consolidation

(i) Subsidiaries

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.

(ii) Special purpose entities

The Group has established a special purpose entity (SPE), ThinkSmart Trust, for the purpose of securitising finance lease receivables acquired and other receivables it intends to originate. The SPE entity is wholly owned by the Group and included in the consolidated financial statements of the Group, based on the evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. The following circumstances indicate a relationship in which the Group controls and subsequently consolidates the SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot mechanism', the Group has delegated these decision making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activity of the SPE.
- The Group retains the majority of the residual of ownership risks of the SPE or its asset in order to obtain benefits from its activities.

(iii) Transactions eliminated on consolidation

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

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.

(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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(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.

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) Trade and other payables

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

(f) Investments

Investments in controlled entities are recorded at the lower of cost and recoverable amount.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(g) Financial instruments

(i) 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 recognised 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.

Investments

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a 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.

Lease receivables

The Group has entered into financing transactions with customers and has classified its leases as finance leases for accounting purposes. Under a finance lease, substantially all the risks and benefits incidental to the ownership of the leased asset are transferred by the lessor to the lessee. The Group recognises at the beginning of the lease term an asset at an amount equal to the aggregate of the present value (discounted at the interest rate implicit in the lease) of the minimum lease payments and an estimate of the value of any unguaranteed residual value expected to accrue to the benefit of the Group at the end of the lease term. This asset represents the Group's net investment in the lease. Finance leases acquired from other parties are recognised at fair value including direct and incremental costs and subsequently remeasured at amortised cost using the effective interest rate method and are presented net of provisions for impairment.

Unearned interest

Unearned interest on leases and other receivables is brought to account over the life of the lease contract based on the interest rate implicit in the lease using the effective interest rate method.

Initial direct transaction costs

Initial direct costs or directly attributable, incremental transaction costs incurred in the origination of leases are included as part of receivables in the balance sheet and are amortised in the calculation of lease income and interest income.

Allowance for losses

The collectability of lease receivables is assessed on an ongoing basis. A provision is made for losses based on historical rates of arrears and the current delinquency position of the portfolio.

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.

Loan receivables

Loan 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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

(ii) 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 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.

Capitalised borrowing costs consist of legal and other costs that are incurred in connection with the borrowing of funds. These costs are capitalised and then amortised over the life of the loan.

Financial guarantee contracts

Financial guarantees issued by the Group are recognised as financial liabilities at the date the guarantee is issued. Liabilities arising from financial guarantee contracts, including where applicable, guarantees of subsidiaries through deeds of cross guarantee, are initially recognised at fair value and subsequently at the higher of the amount of projected future losses and the amount initially recognised less cumulative amortisation.

The fair value of the financial guarantee is determined by way of calculating the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Any increase in the liability relating to financial guarantees is recognised in profit and loss. Any liability remaining is derecognised in profit and loss when the guarantee is discharged, cancelled or expires.

(iii) Impairment of assets

Financial assets, including finance lease receivables and loan receivables

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.

In assessing collective impairment, the Group uses modelling of historical trends of the probability of defaults, timing of recoveries and the amount of loss incurred. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the assets original effective interest rate.

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.

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.

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, the reversal is recognised in profit and loss.

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.

(h) 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 Contracts

The Group recognises an intangible asset arising if it has an unconditional contractual right to receive income arising from equipment and rights to the hiring agreement at the end of term. This inertia contract is measured at fair value at the inception of the hiring agreement, and is based on discounted cash flows expected to be derived from the sale or hire of the assets at the end of the term. Subsequent to initial recognition the intangible asset is measured at cost. Amortisation is based on cost less estimated residual value.

At the end of the hiring term the intangible asset is derecognised and the Group recognises the equipment as inventory at the corresponding value.

Contract Rights

The contractual rights obtained by the Group under financing agreements entered into with its funding partners and operating agreements with its 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.

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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

(i) 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.

(j) 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.

The Group pays defined contributions for post-employment benefit into a separate entity. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

Termination benefits are recognised as an expense when the Group is committed, it is probable that settlement will be required, and they are capable of being reliably measured. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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 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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(k) 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.

(l) 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:

Finance lease income

Finance lease income is recognised on those leases originated or acquired by the Group where the Group, rather than a third party financier, is the lessor. Finance lease income is recognised on the effective interest rate method at the constant rate of return which amortises over its economic life, the lease asset down to the estimate of any unguaranteed residual value that is expected to be accrued to the Group at the end of the lease.

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.

Residual interest in equipment (inertia income)

- Secondary rental income
Rental income from extended rental assets is recognised when receivable 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.
Proceeds from the sale of rental assets are brought to account at the time of the sale to the extent not already recognised through Finance lease income.

Insurance income

Insurance income includes commissions received on insurance policies issued by third party insurers to cover theft and damage of rental equipment. In the UK, insurance income is recognised at fair value of the future payments receivable as substantially all of the services to earn that revenue are completed upfront. The revenue recognition policy for the Australian insurance income is consistent with the treatment of commission income from funders.

Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in the profit and loss account using the effective interest rates of the financial assets or liabilities to which they relate.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability. When calculating the effective interest rate the Group includes all amounts paid or received by the Group which are considered to be an integral part of the effective interest rate, including merchant fees received and rebates paid.

Deferred service income

Income arising on recognition of any intangible inertia asset at the commencement of the lease is deferred and recognised over the lease term on a straight line basis as the services are rendered.

(m) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures, predominately in the ThinkSmart Trust.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in cash flows of the respective hedged items attributable to hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. The fair values of derivatives used for hedging purposes are disclosed in Note 28(b). Movements in the hedging reserve in shareholder equity are shown in the Statement of Changes in Equity.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

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.

(n) 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 payable for current and prior periods is recognised as a liability to the extent that it is unpaid. Carried forward tax recoverable on tax losses is recognised as a deferred tax asset where it is probable that future taxable profit will be available to offset in future periods.

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 Group 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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Current and deferred tax for the period

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

(o) 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.

(p) Foreign currency transactions

Functional and presentation currency

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

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing 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 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 not a 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,

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

(q) 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.

(r) 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.

(s) 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.

(t) 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 Chief Executive Officer 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.

(u) 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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets (refer to Note 3(h)).

Intangible inertia asset

The fair value of inertia asset is measured at inception of the hiring agreement and is based on discounted cash flows expected to be derived from the sale or hire of the assets at the end of the hire term.

Trade and other and loan receivables

The fair value of trade and other and loan 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 share options is measured using a binomial model and loan funded shares are measured using a monte-carlo simulation 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 remuneration is measured using the closing share price on the date the shares are granted.

Cash flow hedges

The fair value of the interest rate swap is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and included adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

4. Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

- Note 7 - measurement and recognition of tax losses
- Note 9 - loans and lease receivables, including estimation of unguaranteed residual value and credit losses
- Note 12 - fair value at inception of inertia intangible assets and recoverable amount
- Note 14 - measurement of the recoverable amount of cash generating units containing goodwill
- Note 17 - measurement of deferred services income
- Note 20 - measurement of share-based payments

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 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.

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. 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 Head of Treasury and Risk has day to day responsibility for managing credit risk within the risk appetite of the Board. Appropriate oversight occurs via monthly credit performance reporting to management and the Board.

The Group has minimal concentrations of credit risk in relation to debtors and lease receivables with the portfolio comprising a large number of relatively low value receivables. In the case of the special purpose entity funded operations, ThinkSmart's exposure to credit risk is limited to the value of its notes in the relevant series of the special purpose entity plus \$3.5m. Losses in excess of that are borne by the senior financier's notes. The notes in the various series of the special purpose entity are structured such that on a probability weighted outcomes basis, ThinkSmart bears the credit risk (refer to Note 28c for further information).

To manage credit risk in relation to its customers, the Group employs a sophisticated credit assessment and fraud minimisation process delivered through its patented QuickSmart system. The credit underwriting system uses a combination of credit scoring and credit bureau reports as well as electronic identity verification and a review of an applicant's details against a fraud database. The credit policy is developed and applied by the group's Head of Treasury and Risk who monitors ongoing credit performance on different cohorts of customer contracts. The Group has a specialist collections function which manages all delinquent accounts.

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.

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.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses and financing subordination requirements. In addition, the Group maintains the operational facilities which are shown in notes 18 and 19.

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.

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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, Sterling and Euro.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. 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 (2011: nil).

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 (refer to Note 28 for further information).

Interest rate risk

The Group has no current or non-current corporate borrowings as at 31 December 2012. Exposure to interest rate risk on any future corporate 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.

The Group has interest rate risk exposure to the notes in the SPE that it has issued to the financiers of its lease receivables. These notes are floating rate notes with the rate based on a fixed margin above a benchmark interest rate. Interest rate risk results principally from changes in the benchmark interest rate and accordingly the Group mitigates some of this risk by entering into an interest rate swap to hedge against the variability in the cash flows due to changes in the interest rate (refer to Note 28a for further information).

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 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
- 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.

Under the terms of its financing arrangements in the SPE, the Group is required to subscribe to and hold a minimum value of notes based on the value of receivables outstanding to ensure ongoing financing. The SPE is bankruptcy remote in that ThinkSmart's risk exposure is limited to the amount of capital that it holds within the relevant series of the SPE plus \$3.5m.

ThinkSmart Finance Limited holds an Australian Financial Services Licence (AFSL) in relation to its role as Trust Manager of the SPE. Under the terms of its AFSL it must have assets that exceed its liabilities and there are also liquidity conditions (measured on a Group basis).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

	2012	2011
	\$000	\$000
Total liabilities	66,924	67,915
Less cash and cash equivalents	(18,568)	(4,610)
Net debt/(cash)	<u>48,356</u>	<u>63,305</u>
Total equity	<u>48,021</u>	<u>40,266</u>
Debt-to-adjusted capital ratio at 31 December	<u>1.0</u>	<u>1.6</u>

Other than as described above in relation to the SPE, 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	2012 \$000	2011 \$000
6. Consolidated Income Statement			
Profit/(loss) is arrived at after crediting/(charging) the following items:			
a) Portfolio income			
Finance lease income		11,391	6,307
Interest revenue – customers		488	-
Interest revenue – other entities		854	880
Surplus unguaranteed residual income		2,222	4,408
Extended rental income		5,780	6,205
Other inertia income	17	2,438	1,037
Fee revenue – customers		925	672
		24,098	19,509
b) Other revenue			
Services revenue – insurance		2,043	2,618
Services revenue – Dick Smith Warranty contract		650	2,280
Other revenue		895	87
		3,588	4,985
c) Interest expense			
Interest expense – corporate banking facilities		242	177
Interest expense – other interest bearing liabilities		3,998	1,115
Total interest expense		4,240	1,292
d) Other operating expenses			
Employees benefits expense:			
- Payment to employees		12,812	11,896
- Employee superannuation cost		842	787
- Share-based payment expense		326	604
- Provision for employee entitlements		605	509
		14,585	13,796
Occupancy costs		1,214	1,180
Professional services		2,365	1,504
Finance charges		953	1,756
Other costs		2,617	2,808
		21,734	21,044
e) Depreciation and amortisation			
Depreciation	11	428	541
Amortisation	12	2,808	1,720
		3,236	2,261
f) Impairment losses			
Impairment losses on finance leases and receivables	28(c)	4,098	1,522
Impairment losses on intangible assets (net)		182	69
Total impairment losses		4,280	1,591

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
7. Income Tax		
The major components of income tax (benefit)/expense for the year ended 31 December are:		
<i>Current income tax expense</i>		
Current income tax charge	686	3,259
Adjustment for prior period	55	(101)
<i>Deferred income tax expense</i>		
Origination and reversal of temporary differences	(1,280)	(282)
De-recognition of previously recognised tax asset	-	230
Adjustment for prior period	74	107
Income tax (benefit)/expense reported in the income statement	<u>(465)</u>	<u>3,213</u>
A reconciliation between tax expense and the product of accounting (loss)/profit before income tax multiplied by the applicable income tax rate is as follows:		
Accounting (loss)/profit before tax	(1,906)	10,011
At the statutory income tax rate of 30%	(572)	3,003
Effect of tax rates in foreign jurisdictions	(277)	(120)
Non deductible expenses:		
- corporate development	17	21
- other	262	107
Overseas tax losses (recognised)/not recognised	(84)	80
Adjustments in respect of prior periods	189	122
Income tax (benefit)/expense reported in the income statement	<u>(465)</u>	<u>3,213</u>
Income tax recognised directly in equity		
Equity raising costs	306	-
Income tax recognised in other comprehensive income and equity		
Cash flow hedges	(51)	89

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
7. Income Tax (continued)		
Deferred tax asset		
Loan and lease receivables	1,192	502
Accrued expenses	67	134
Employee entitlements	181	178
Equity raising costs	433	191
Borrowing costs	18	11
Plant & equipment	330	524
Tax losses	723	160
Derivatives	-	89
Other	82	91
Total	<u>3,026</u>	<u>1,880</u>
Deferred tax liability		
Derivatives	51	-
Prepayments	-	2
Deals awaiting settlement	-	386
Intangible assets	380	143
Plant and equipment	241	1,186
Other	2	336
Total	<u>674</u>	<u>2,053</u>
Net deferred tax asset (i)	<u>2,352</u>	-
Net deferred tax liability (i)	<u>-</u>	<u>173</u>

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

Unrecognised deferred tax assets

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

Tax losses	<u>905</u>	<u>957</u>
	<u>905</u>	<u>957</u>

The deductible temporary differences and tax losses do not expire under current tax legislation.

Deferred tax assets that relate to tax losses in Italy 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. Deferred tax assets relating to temporary differences and tax losses in Australia of \$3.517m have been recognised based on management's forecasts which provides convincing other evidence that it is probable that future taxable profits would be available against which they can be utilised.

Management forecasts of future taxable profits incorporate estimates of future trading of the Australian operations, including that the Australian business has now transitioned to lease accounting.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
8. Other Current Assets		
Prepayments	2,427	3,336
Inventories	185	58
Other assets	-	771
Sundry debtors	959	1,172
	<u>3,571</u>	<u>5,337</u>
9. Loan and Lease Receivables		
Current		
Rental receivables (net of GST)	23,142	17,268
Unguaranteed residuals	4,925	2,816
Unearned finance income	(5,561)	(2,385)
Net lease receivables	22,506	17,699
Other lease receivable	18,452	21,584
Loan receivables	2,020	-
Allowance for losses	(3,814)	(864)
	<u>39,164</u>	<u>38,419</u>
Non-current		
Rental receivables (net of GST)	15,166	8,870
Unguaranteed residuals	1,248	1,463
Unearned finance income	(5,961)	(1,239)
Net lease receivables	10,453	9,094
Other lease receivable	12,178	19,637
Loan receivables	619	-
Allowance for losses	-	(725)
	<u>23,250</u>	<u>28,006</u>
Loan and lease receivables due within 12 months	39,164	38,419
Loan and lease receivables due in greater than 12 months and less than 5 years	23,250	28,006
	<u>62,414</u>	<u>66,425</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. Loan and Lease Receivable (continued)

The net carrying value of lease receivables includes the earned portion of any unguaranteed residual value expected to accrue to the Group at the end of the lease, which by its nature introduces estimation uncertainty into the amortised cost calculation. The Group continually assesses current unguaranteed residual value proceeds and includes these as the Group's best estimate of future unguaranteed residual value.

The calculation of the allowance for losses contains a number of elements of judgement. The Group makes judgements as to how the current level of arrears of a loan or lease receivable relate to its probability of future default. The Group also makes judgements as to the recoverable amount in circumstances of default. These estimates are based on historical loss experience and objective experience of historical recoveries for assets with similar characteristics. The methodology and assumptions used for estimating losses are reviewed regularly to reduce the difference between loss estimates and actual loss experience. Further information about the allowance for losses is set out in Note 28(c).

During the second half of 2011, the Group progressed the acquisition of lease receivables originated under an existing brokerage arrangement with Bendigo and Adelaide Bank ("BEN"). The acquisition was subject to APRA approval. On 22 December 2011, agreement was reached with BEN resulting in the rights to the lease receivables held by BEN being assigned to the Group effective 1 October 2011. This was accounted for as a "pass through" arrangement under AASB 139 *Financial Instruments: Recognition and Measurement* whereby the risks and rewards of the underlying finance lease receivables were transferred to the Group. Subsequent to 31 December 2011, the APRA approval being sought was not granted. On 28 June 2012, the Group renegotiated the funding agreement maintaining the rights to the lease receivables which were the subject of the 22 December 2011 agreement, and also acquired the rights to lease receivables originated between 1 October 2011 and 28 March 2012. This acquisition is also recognised as a "pass through" arrangement. The liabilities relating to the acquired rights to lease receivables are set out in Note 19.

On 14 June 2011 the Group acquired a portfolio of finance lease receivables from Bendigo and Adelaide Bank (BEN). These receivables were previously originated by the Group on behalf of BEN. The receivables were acquired by ThinkSmart Trust at a fair value of \$36 million at the date of acquisition. The receivables were acquired into series 2 of ThinkSmart Trust with funding provided by the issue of \$26 million of a series notes in series 2 of ThinkSmart Trust to Westpac with the balance provided by internally funded notes in the same series of ThinkSmart Trust issued to ThinkSmart. Further details of the notes are disclosed in Note 19.

Further information about the Group's exposure to credit risk and interest rate risk in relation to the loan and lease receivables are set out in Note 28.

	2012	2011
	\$000	\$000
10. Other Non-Current Assets		
Insurance prepayments	1,564	1,602
Deposits held by funders (i)	5,080	5,175
	<u>6,644</u>	<u>6,777</u>

- (i) 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.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. Plant and Equipment

	Plant & Equipment	Lease equipment & software	Total
	\$000	\$000	\$000
Gross Carrying Amount			
Cost or deemed cost			
Balance at 1 January 2011	1,663	929	2,592
Net foreign currency translation differences	(2)	-	(2)
Additions	238	97	335
Disposals	(1)	-	(1)
Transfers	-	(44)	(44)
Balance at 31 December 2011	<u>1,898</u>	<u>982</u>	<u>2,880</u>
Net foreign currency translation differences	74	-	74
Additions	199	239	438
Disposals	(2)	-	(2)
Balance at 31 December 2012	<u>2,169</u>	<u>1,221</u>	<u>3,390</u>
Accumulated Depreciation			
Balance at 1 January 2011	(1,063)	(409)	(1,472)
Effect of movement in exchange rate	10	-	10
Disposals	-	-	-
Depreciation expense	(397)	(144)	(541)
Impairment loss	(3)	-	(3)
Balance at 31 December 2011	<u>(1,453)</u>	<u>(553)</u>	<u>(2,006)</u>
Effect of movement in exchange rate	(70)	-	(70)
Disposals	-	-	-
Depreciation expense	(326)	(102)	(428)
Balance at 31 December 2012	<u>(1,849)</u>	<u>(655)</u>	<u>(2,504)</u>
Net Book Value			
At 31 December 2011	445	429	874
At 31 December 2012	320	566	886

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. Intangible Assets

	Contract rights \$000	Software \$000	Distribution network \$000	Intellectual Property \$000	Inertia Contracts \$000	Total \$000
Gross carrying amount						
At cost						
Balance at 1 January 2011	2,644	4,167	411	642	2,911	10,775
Additions	2,891	1,574	-	-	3,609	8,074
Disposals	-	-	-	-	(2,910)	(2,910)
Effect of movement in exchange rate	(6)	-	-	-	(2)	(8)
Transfers	2	43	-	-	-	45
Balance at 31 December 2011	5,531	5,784	411	642	3,608	15,976
Additions	1,000	894	-	-	4,800	6,694
Disposals/transfer to inventory	-	(17)	-	-	(225)	(242)
Effect of movement in exchange rate	(10)	-	10	-	90	90
Transfers	(7)	7	-	-	-	-
Balance at 31 December 2012	6,514	6,668	421	642	8,273	22,518
Accumulated amortisation and impairment						
Balance at 1 January 2011	(1,192)	(1,613)	(373)	(337)	(2,911)	(6,426)
Amortisation expense	(1,010)	(640)	(38)	(32)	-	(1,720)
Disposals	-	-	-	-	2,908	2,908
Effect of movement in exchange rate	13	-	1	-	2	16
Impairment loss	(65)	-	-	-	-	(65)
Balance at 31 December 2011	(2,254)	(2,253)	(410)	(369)	(1)	(5,287)
Amortisation expense	(1,489)	(1,287)	-	(32)	-	(2,808)
Disposals	-	-	-	-	-	-
Effect of movement in exchange rate	14	-	(10)	-	(6)	(2)
Impairment loss (i)	-	-	-	-	(341)	(341)
Balance at 31 December 2012	(3,729)	(3,540)	(420)	(401)	(348)	(8,438)
Net book value						
At 31 December 2011	3,277	3,531	1	273	3,607	10,689
At 31 December 2012	2,785	3,128	1	241	7,925	14,080

(i) Impairment loss relates to the write off where the related contract has early terminated principally due to contract default.

Inertia contract assets acquired are measured at fair value based on the discounted cash flows expected to be derived from the sale or hire of the assets at the end of the term. This measurement inherently introduces estimation uncertainty. The Group continually assesses current inertia proceeds and includes these in the estimation of inertia assets acquired.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		% of Equity	
		2012	2011
13. Interest in Subsidiaries			
Interest in Subsidiaries	Country of Incorporation		
RentSmart Limited	UK	100	100
RentSmart Pty Ltd	Australia	100	100
RentSmart (NZ) Pty Ltd	New Zealand	100	100
RentSmart Servicing Pty Ltd	Australia	100	100
RentSmart Unit Trust	Australia	100	100
SmartCheck Finance Spain SL	Spain	100	100
SmartCheck Ltd	UK	100	100
SmartCheck Pty Ltd	Australia	100	100
SmartPlan Spain SL	Spain	100	100
ThinkSmart Employee Share Trust	Australia	100	-
ThinkSmart Europe Ltd	UK	100	100
ThinkSmart Finance Ltd	Australia	100	100
ThinkSmart Financial Services Ltd	UK	100	100
ThinkSmart Inc	USA	100	100
ThinkSmart Insurance Administration Ltd	UK	100	100
ThinkSmart Italy Srl	Italy	100	100
ThinkSmart LTI Pty Limited	Australia	100	-
ThinkSmart Trust	Australia	100	100
		2012	2011
		\$000	\$000
14. Goodwill			
Balance at beginning of financial year		3,539	3,541
Effect of movement in exchange rate		88	(2)
Balance at end of financial year		<u>3,627</u>	<u>3,539</u>

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the UK segment as disclosed in note 24, 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 UK cash-generating unit was based on its value in use using business plan assumptions and a discount rate approximating the weighted average cost of capital of the group (circa 14% pre tax) and hence includes inherent estimation uncertainty. 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 2013 to 2016 and 10% growth to 2017, 2.0% year-on-year growth, and estimated terminal growth at 2.0%.
- A post tax discount rate of 8.7% (11.6% pre tax) was applied in determining the recoverable amount of the unit. The discount rate was based on the estimated weighted average cost of capital (WACC) for the Group's UK operation.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. Assets Pledged as Security

ThinkSmart Limited and ThinkSmart Finance Limited have pledged all their present and future assets to Westpac as security for \$3.5m of the 'Other Interest Bearing Liabilities' Westpac has provided, as disclosed in Notes 18 and 19. ThinkSmart Europe Limited has provided an equitable mortgage over the shares it holds in the main UK operating entity, RentSmart Limited.

	2012	2011
	\$000	\$000
16. Trade and Other Payables, and Provisions		
Trade and other payables	3,476	3,219
Hedging derivative	128	297
Product plan	20	251
GST Payable	1,010	1,665
Other accrued expenses	2,007	1,471
	<u>6,641</u>	<u>6,903</u>
Provisions		
Annual leave	386	310
Long service leave (i)	219	200
Other	1	1
	<u>606</u>	<u>511</u>

(i) 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.

	Notes	2012	2011
		\$000	\$000
17. Deferred Service Income			
Balance at 1 January 2012		2,572	-
Effect of movement in exchange rate		22	-
Intangible inertia assets acquired	12	4,800	3,609
Reversal due to intangible asset impairment		(158)	-
Recognised in Consolidated Income Statement	6(a)	(2,438)	(1,037)
		<u>4,798</u>	<u>2,572</u>
Deferred service income to be recognised within 12 months		2,977	1,380
Deferred service income to be recognised in greater than 12 months		1,821	1,192
		<u>4,798</u>	<u>2,572</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
18. Current Borrowings		
Term loans	-	2,500
Borrowing costs	-	(73)
	<u>-</u>	<u>2,427</u>
Corporate financing facilities		
Secured bank overdraft facility reviewed annually and payable at call:		
- amount used	-	-
- amount unused	778	-
	<u>778</u>	<u>-</u>
Committed cash advance facility/Secured bill acceptance facility:		
- amount used	-	2,500
- amount unused	5,000	2,500
	<u>5,000</u>	<u>5,000</u>
Standby letter of credit facility:		
- amount used	-	3,035
- amount unused	-	-
	<u>-</u>	<u>3,035</u>
Other finance facilities (business credit card, payroll facility, term loan, multi-option facility):		
- amount used	14	-
- amount unused	25	129
	<u>39</u>	<u>129</u>
Total corporate financing facility	<u>5,817</u>	<u>8,164</u>

The total corporate facilities of \$5.817m (2011: \$8.164m) identified above are reviewed annually and secured over the assets of the Group. The next annual review is scheduled to be completed by 30 June 2013. Further information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in Note 28.

At this time, Directors consider it probable that the facilities will continue to be available to the Group.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
19. Other Interest Bearing Liabilities		
Current		
Loan advances – secured (i)	18,830	14,930
Financial liability – secured (ii)	15,470	21,801
	<u>34,300</u>	<u>36,731</u>
Non-current		
Loan advances – secured (i)	8,373	2,300
Financial liability – secured (ii)	11,690	14,691
	<u>20,063</u>	<u>16,991</u>
Customer financing facilities		
Secured financing facilities		
- amount used – lease financing arrangement – series 2	18,377	53,722
- amount used – lease financing arrangement – series 3	8,827	-
- amount used – brokerage arrangement	27,159	9,460
- amount unused	113,137	104,318
Total facility (iii)	<u>167,500</u>	<u>167,500</u>

- (i) The loans are provided in the form of notes in a series of ThinkSmart Trust. The notes are secured by all payments receivable in respect of the underlying lease receivable contracts assigned to the relevant series of ThinkSmart Trust and pay down in line with the repayments of the underlying leases, regardless of the result of any review outlined in note (iii) below. An additional \$3.5m corporate guarantee is provided as support for one of the tranches of senior funding. The notes are interest bearing and during the period the weighted average rate was 6.64% (2011: 7.62%).
- (ii) The financial liability arises from a contractual obligation the Group has to remit funds to Bendigo and Adelaide Bank arising from the “pass through” arrangement. The obligation is secured by all payments receivable in respect of the underlying lease receivable contracts subject to the “pass through” arrangement and pay down in line with the repayments of the underlying leases. The obligation is interest bearing and the weighted average interest rate was 6.75% (2011: 8.49%).
- (iii) A customer financing facility of \$100.0m (2011: \$100.0m) is reviewed annually, with the next review due in June 2013. Another customer financing facility of \$67.5m (2011: \$67.5m) is available until December 2016 on an offer and accept basis.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	\$000	\$000
20. Issued Capital		
(a) Issued and paid up capital		
159,163,764 Ordinary Shares fully paid (2011: 130,004,390)	48,073	39,664

	2012	2012	2011	2011
	Number	\$000	Number	\$000
<i>Fully Paid Ordinary Shares</i>				
Balance at beginning of the financial year	130,004,390	39,664	129,879,390	39,615
Issue of new shares for employee loan fund share plan	3,033,333	-	-	-
Issue of new shares for employee share-based payment	125,000	23	125,000	65
Issue of new shares	26,001,041	9,100	-	-
Capital raising costs	-	(714)	-	(16)
Balance at end of the financial year	<u>159,163,764</u>	<u>48,073</u>	<u>130,004,390</u>	<u>39,664</u>

During the year no employee share options or loan-funded shares were exercised (2011: nil). The Company issued 125,000 escrowed shares to an Executive, A Baum, during the year as part of his employment contract, refer to note 20(b)(ii).

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.

(b)(i) Share options – employee options and loan-funded shares

The Company has an ownership-based remuneration 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. Each employee loan-funded share converts to one ordinary share of ThinkSmart Limited on exercise and repayment of the loan. The options carry neither rights or dividends nor voting rights. The loan-funded shares carry voting and rights to dividends.

Options issued in previous periods:

- 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 and 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 conditions.
- 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 and 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 conditions.
- 2,133,333, 100,000 and 250,000 options over ordinary shares were issued 11 April 2011, 15 June 2011 and 25 July 2011 respectively. The options are exercisable at \$0.84, with an exercise period between 1 January 2014 and 31 December 2015. 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 conditions.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (continued)

(b)(i) Share options – employee options and loan-funded shares (continued)

Options and loan-funded shares issued in the current period:

- 400,000 options over ordinary shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 09 August 2017. Vesting of the options is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of options will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
 - Tranche 2: 25% of options will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.

- 3,033,333 loan-funded shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 09 August 2017. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
 - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.

The value of these options and loan-funded shares will be expensed over the vesting period in accordance with AASB 2.

Below are options and loan-funded shares issued in 2011 and 2012:

Loan-funded shares issued in 2012	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee loan-funded shares	3,033,333	10/08/2012	10 Aug 2012 to 09 Aug 2017	\$0.19	\$0.02 - \$0.06

Options series issued in 2012	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee options	400,000	10/08/2012	10 Aug 2012 to 09 Aug 2017	\$0.19	\$0.02 - \$0.06

Options series issued in 2011	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee options	1,000,000	11/04/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.42
Employee options	1,133,333	11/04/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.40
Employee options	100,000	15/06/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.30
Employee options	250,000	25/07/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.28

The weighted average fair value of the share options and loan-funded shares granted in 2012 is \$0.35 (2011: \$0.33). Options issued before 2012 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. Options and loan-funded shares issued in 2012 were priced using a monte-carlo pricing model. Expected volatility is based on the historic volatility of the market price of the Company's share and the mean reversion tendency of volatilities.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (continued)

(b)(i) Share options – employee options and loan-funded shares (continued)

Below are the inputs used to measure the fair value of the options and loan-funded shares:

	Employee options and loan-funded shares			
Issued in 2012				
Grant date	10/08/2012			
Fair value at grant date	\$0.02-\$0.06			
Grant date share price	\$0.19			
Exercise price	\$0.19			
Expected volatility	50%			
Option/loan share life	4 years			
Dividend yield	2.14%			
Risk-free interest rate	2.5%			
		Employee options	Employee options	Employee options
Issued in 2011				
Grant date	11/04/2011	11/04/2011	15/06/2011	25/07/2011
Fair value at grant date	\$0.42	\$0.40	\$0.30	\$0.28
Grant date share price	\$0.83	\$0.83	\$0.70	\$0.66
Exercise price	\$0.84	\$0.84	\$0.84	\$0.84
Expected volatility	78%	78%	78%	78%
Option life	4.2 years	3.7 years	3.5 years	3.4 years
Dividend yield	4.15%	4.15%	4.88%	4.88%
Risk-free interest rate	5.85%	5.75%	5.50%	4.56%

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

	2012		2011	
	Number of options/loan funded shares	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	7,166,667	\$0.84	6,293,333	\$1.05
Granted during the financial year	3,433,333	\$0.19	2,483,333	\$0.84
Forfeited during the financial year	(1,400,000)	\$0.74	(649,999)	\$0.85
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(960,000)	\$2.19
Balance at the end of financial year	<u>9,200,000</u>	<u>\$0.61</u>	<u>7,166,667</u>	<u>\$0.84</u>
Exercisable at end of the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The options and loan-funded shares outstanding at 31 December 2012 have an exercise price in the range of \$0.19 to \$1.11 (2011: \$0.62 to \$1.11) and a weighted average contractual life of 2.83 years (2011: 2.97 years).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (continued)

(b)(i) Share options – employee options and loan-funded shares (continued)

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

	2012	2011
	\$000	\$000
Share options granted in 2006 – equity settled	(85)	-
Share options granted in 2009 – equity settled	(64)	43
Share options granted in 2010 – equity settled	111	224
Share options granted in 2011 – equity settled	212	255
Shares as remuneration granted in 2010, 2011 and 2012 – equity settled	98	82
Share options/loan-funded shares granted in 2012 – equity settled	54	-
Total expense recognised as employee costs	<u>326</u>	<u>604</u>

(b)(ii) Share compensation – employee shares

Details on shares of the Company that were granted as remuneration to each Key Management Person and details of shares vested during the reporting period are as follows:

	No of shares granted	Grant date	Fair value at grant date (\$)	Vesting period	No of shares vested during 2012	No of shares vested during 2011
Executives						
A Baum	350,000	01/09/2010	0.64	3 years	-	-
A Baum	125,000	01/09/2011	0.52	3 years	-	-
A Baum	125,000	03/10/2012	0.18	3 years	-	-

The shares are provided at no cost to the recipient as part of his employment contract and are held in escrow. No shares have been granted since the end of the financial year.

These shares were issued to A Baum. The shares are ordinary shares in the Company and will vest upon completion of a 3-year service period from the date of issue. 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.

The fair value of these shares is recorded in the profit and loss on a straight line basis across their vesting term, with \$0.098m (2011: \$0.082m) expensed during the year.

(c) Dividends

There were no dividends declared or paid during the year or since the year end.

During 2011, \$4.546m of dividends were paid on 29 April 2011. This was a dividend of 3.5 cents per share which was 45% franked at the tax rate of 30%.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Issued Capital (continued)

(d) Franking credits

	2012	2011
	\$000	\$000
Franking credit account balance as at the beginning of the financial year at a tax rate of 30% (2011: 30%)	1,190	615
Franking credits from the payment of income tax paid and payable as at the end of the financial year	1,539	1,644
Franking debits from the payment of dividends in the financial year	-	(1,069)
Franking credit account balance as at the beginning of the financial year at a tax rate of 30% (2011: 30%)	<u>2,729</u>	<u>1,190</u>

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. 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 2012, the subsidiaries have no franking credits for the benefit of the Company (2011: nil).

	2012	2011
	\$000	\$000
21. Reserves		
Equity settled employee benefits reserve – options (i)	1,159	951
Equity settled employee benefits reserve – shares (i)	(86)	(181)
Foreign currency translation reserve (ii)	(4,066)	(4,432)
Hedge reserve (iii)	(90)	(208)
	<u>(3,083)</u>	<u>(3,870)</u>

- (i) The share-based remuneration reserve arises on the grant of share options and shares to Executives under the employee share option plan and loan-funded share 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 provided 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.
- (iii) The hedge reserve comprises the effective portion of the cumulative net change in fair value of the cash flow hedge relating to hedged transactions that have not yet occurred.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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:

	2012	2011
	\$000	\$000
Reconciliation of cash and cash equivalents		
Cash balance comprises:		
- Available cash and cash equivalents	6,008	2,582
- Restricted cash	12,560	2,028
	<u>18,568</u>	<u>4,610</u>

The restricted cash is held as part of the Group's funding arrangements in Australia and the UK. Included within restricted cash is \$5.432m (31 December 2011: \$nil) of deposits held as a loss reserve against the performance of lease assets within the funding agreement which was finalised in June 2012 and is described in note 9.

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

	2012	2011
	\$000	\$000
(b) Reconciliation of the (loss)/profit for the year to net cash flows from operating activities:		
(Loss)/profit after tax	(1,441)	6,798
Add back non-cash items:		
Depreciation	428	541
Amortisation	2,808	1,720
Impairment	-	69
Impairment losses on finance lease receivables	4,098	1,522
Foreign currency loss/(gain) unrealised	358	(13)
Provision for employee entitlements	95	3
Equity settled share-based payment	326	604
(Increase)/decrease in assets:		
Trade receivables, deposits held with funders and other movements in lease assets	1,198	(6,959)
Prepayments	811	712
Deferred tax asset	(1,825)	288
Other assets	444	(377)
Rental asset inventory	(124)	-
Increase/(decrease) in liabilities:		
Trade and other creditors	(4,732)	6,612
Provision for income tax	(2,151)	1,086
Deferred tax liability	493	(194)
Other payables	(96)	-
Net cash from operating activities	<u>690</u>	<u>12,412</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. Leases and Hire Purchase Obligations

Operating leases – leasing arrangements

Operating leases relate to office facilities with lease terms of up to 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.

	2012	2011
	\$000	\$000
Non-cancellable operating lease payments:		
No later than 1 year	871	838
Later than 1 year and not later than 5 years	-	871
	<u>871</u>	<u>1,709</u>

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

24. Segment Information

The Group has three reportable segments which comprise the Group's two core business units, with the "other" segment presented composing low volume territories. The head office corporate function composes the reconciliation between the three reportable segments and the Group, given that there is no inter-segment revenue. The business units offer predominantly similar products and services, however have separate Executive structures and separate operational teams. During the year, the internal information supplied to management changed to align with this structure and as a result comparative segment information has been restated in conformity with the requirements of AASB 8 *Operating Segments*.

For each of the segments, the Board and the CEO review internal management reports on a monthly basis. The composition of the reportable segments is as follows:

Australia:

- ThinkSmart Finance Ltd
- ThinkSmart Trust
- RentSmart Servicing Pty Ltd
- RentSmart Pty Ltd

UK:

- RentSmart Limited
- ThinkSmart Insurance Administration Ltd

Other:

- RentSmart (NZ) Pty Ltd
- SmartCheck Finance Spain SL
- ThinkSmart Europe Ltd
- ThinkSmart France SARL
- ThinkSmart Inc
- ThinkSmart Inc (USA)
- ThinkSmart Italy Srl

Corporate:

- ThinkSmart Limited

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. Segment Information (continued)

Operating Segments

Information about reportable segments	UK		Australia		Other Territories		Corporate		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
For the year ended 31 December	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Portfolio income	7,556	6,393	16,286	12,460	217	419	39	237	24,098	19,509
Interest expense	-	-	(4,001)	(1,116)	(1)	(2)	(238)	(174)	(4,240)	(1,292)
Net portfolio income	7,556	6,393	12,285	11,344	216	417	(199)	63	19,858	18,217
Commission income	9,256	6,034	2,837	15,292	(56)	534	-	-	12,037	21,860
Other revenue	2,044	2,366	1,485	2,301	59	318	-	-	3,588	4,985
Net operating income	18,856	14,793	16,607	28,937	219	1,269	(199)	63	35,483	45,062
Indirect customer acquisition costs	(4,962)	(2,779)	(3,129)	(6,324)	(26)	(644)	(22)	(6)	(8,139)	(9,753)
Operating expenses	(5,580)	(5,340)	(10,921)	(10,809)	(316)	(568)	(4,917)	(4,327)	(21,734)	(21,044)
Depreciation and amortisation	(394)	(539)	(2,786)	(1,591)	(56)	(131)	-	-	(3,236)	(2,261)
Impairment losses (note 6(f))	(182)	-	(4,098)	(1,524)	-	(67)	-	-	(4,280)	(1,591)
Restructuring costs	-	-	-	-	-	(217)	-	(185)	-	(402)
Reportable segment profit before income tax	7,738	6,135	(4,327)	8,689	(179)	(358)	(5,138)	(4,455)	(1,906)	10,011
Reportable segment assets	22,319	10,795	88,486	90,394	3,066	6,108	1,074	884	114,945	108,181
Reportable segment liabilities	8,103	1,659	59,751	63,504	(1,275)	1,019	345	1,733	66,924	67,915
Capital expenditure	235	639	2,097	4,161	-	-	-	-	2,332	4,800

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. Segment Information (continued)

Major customer

Revenues from the Group's funding partners represent \$12.038m (2011: \$28.166m) of the Group's total revenue.

	2012	2011
	\$	\$

25. Remuneration of Auditors

Audit services:

Auditors of the Company:

Audit and review of financial reports (Australia)	353,981	302,645
Audit and review of financial reports (Overseas)	77,707	96,373
	431,688	399,018

Services other than statutory audit:

Other assurance services:

Tax and other services	31,481	80,307
Accounting advice	16,500	-
	47,981	80,307

The Group's auditors were KPMG in 2012 and 2011.

26. Commitments and Contingent Liabilities

Australia

Under the terms of its Australian non-SPE funding agreement the Group had deposits held by the funder as credit support for the portfolio of leases funded by the funder. These deposits represented amounts held in excess of expected future losses, however the Group has a potential risk that, if losses exceeded expected levels and alternate remedies were not made, a portion of these deposits would have been forfeited. As at 31 December 2011, the maximum amount of funder deposits that the Group could have potentially forfeited in the future was \$1.241m. During June 2012, the Group renegotiated this funding agreement to provide a different method of credit support, releasing all previous deposits held.

UK

Under the terms of its current UK funding agreement, the Group is obliged to purchase delinquent leases from the funder at the funded amount plus any commission previously received. At 31 December 2012, the total funded amount of all leases funded by the funder is \$42.455m (31 December 2011: \$26.131m). The Group has entered into a Credit Default Swap (CDS) with STB for which it has provided a deposit of \$6.995m (31 December 2011: \$4.303m) as collateral for the obligation under the funding agreement and CDS. The Group has provided \$1.881m (31 December 2011: \$1.330m) which includes some estimation uncertainty as it requires an estimate of the future amount potentially payable for those leases that are likely to become delinquent in the future. The Group estimates this amount based on historical loss experience for assets with similar characteristics.

The total balance of deposits recognised with funders, net of associated provisions and financial guarantee contracts, is \$5.080m (31 December 2011: \$5.175m).

27. Contingent Inertia Assets

Under the Group's accounting policy, inertia revenue for those assets funded under the brokerage model in the UK, where the Group does not have an unconditional right to the asset and residual lease rights, 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. An estimate of the realisable value of the future revenue streams of \$0.939m (31 December 2011; \$1.356m) has been made by estimating expected proceeds through sales channels and public auction.

Where the Group does have an unconditional right to these future revenue streams it recognises an intangible asset.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments

(a) Interest rate risk

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

	Carrying amount	
	2012 \$000	2011 \$000
Fixed rate instruments		
Loan and lease receivables	62,414	66,425
	62,414	66,425
Variable rate instruments		
Cash and cash equivalents	18,568	4,610
Deposits held by funder (non-current)	5,080	5,175
Term loan	-	(2,427)
Secured note facility	(54,363)	(53,722)
Net financial liability	(30,715)	(46,364)

Sensitivity analysis

A change in 1% in interest rates would have increased or decreased the Group's profit by the amounts show below (2011: \$0.202m). This analysis assumes that all other factors remain constant including foreign currency rates.

	Profit or Loss	
	Increase 1%	Decrease 1%
Variable rate instruments	(90)	127
Interest rate hedge	36	(36)
Net profit sensitivity	(54)	91

(b) Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities recorded in the financial statements are not materially different to their fair values. In the case of fixed rate loan and lease receivables, changes in market interest rates and other factors influencing their fair value since inception have an immaterial impact on the effective interest rate.

Fair value hierarchy

The financial instruments carried at fair value have been classified by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The financial liability of the Group is solely comprised of interest rate swaps used for hedging, classified as level 2.

Key assumptions in the valuation of the instruments are limited to interpolating interest rates for certain future periods where there is no observable market data.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (continued)

(c) Credit risk management

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 the reporting date is:

	Note	2012 \$000	2011 \$000
Cash and cash equivalents	22(a)	18,568	4,610
Loan and lease receivables (current)	9	39,164	38,419
Loan and lease receivables (non-current)	9	23,250	28,006
Trade receivables		2,890	10,015
Prepayments (current)		1,858	3,336
Other assets (current)	8	-	771
Sundry debtors	8	959	1,172
Other non-current assets	10	6,644	6,777
		93,333	93,106

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

	2012 \$000	2011 \$000
Australia	79,221	82,759
UK	13,886	10,026
Other	226	321
	93,333	93,106

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

	2012 \$000	2011 \$000
Banks (i)	18,568	4,610
Funders	5,080	5,990
Insurance partners (ii)	3,421	3,512
Retail finance customers (iii)	62,415	66,426
Others (iii)	3,849	12,568
	93,333	93,106

- (i) Cash and cash equivalents are held with banks with S&P ratings of A- and AA-.
- (ii) In 2012, 86% (2011: 72%) of the total prepayment relates to RentSmart Limited's upfront insurance premium payments 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.
- (iii) Included in Others is an amount of \$1.803m (2011: \$7.297m) relating to collections from lessee customers in relation to the portfolio of leases acquired by the Group via a "pass through" arrangement from Bendigo and Adelaide Bank. The credit risk exposure from retail customers also includes an amount of \$30.630m (2011: \$41.221m) which relates to the same portfolio of leases. The bank account to which collections are deposited is held with Bendigo and Adelaide Bank and accordingly the Group has a credit risk exposure to Bendigo and Adelaide Bank with respect to these amounts.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (continued)

(c) Credit risk management (continued)

Trade receivables

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

	Gross 2012 \$000	Impairment 2012 \$000	Gross 2011 \$000	Impairment 2011 \$000
Not past due	1,803	-	344	-
Past due 0-30 days	1,000	-	9,602	30
Past due 31-120 days	87	87	35	21
Past due 121-365 days	-	-	32	32
More than 1 year	-	-	2	2
	<u>2,890</u>	<u>87</u>	<u>10,015</u>	<u>85</u>

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

	2012 \$000	2011 \$000
Balance at 1 January	85	112
Impairment loss recognised	217	148
Bad debt written off	(216)	(175)
Effect of exchange rate	1	-
Balance at 31 December	<u>87</u>	<u>85</u>

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. \$1.803m (2011: \$9.510m) of the trade receivables balance is owed by the Group's most significant financiers.

Loan and lease receivables

The ageing of the Group's loan and lease receivables at the reporting date was:

	Gross 2012 \$000	Impairment 2012 \$000	Gross 2011 \$000	Impairment 2011 \$000
Not past due	53,711	-	59,565	-
Past due 0-30 days	4,598	20	5,200	227
Past due 31-120 days	3,698	749	2,986	1,208
Past due 121-365 days	3,826	2,735	259	153
More than 1 year	395	310	4	1
	<u>66,228</u>	<u>3,814</u>	<u>68,014</u>	<u>1,589</u>

The Group's loan and lease receivables are high volume low value and are advanced to individual customers and small businesses, which prior to inception require to pass the Group's internal credit assessment threshold.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (continued)

(c) Credit risk management (continued)

Loan and lease receivables (continued)

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

	Note	2012 \$000	2011 \$000
Balance at 1 January		1,589	67
Impairment loss recognised	6(f)	4,098	1,522
Bad debt written off		(1,873)	-
Balance at 31 December		3,814	1,589

The management of credit risk in relation to its customers is described in Note 5.

(d) Currency risk management

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts (000's):

	31 December 2012			
	GBP £000	EUR €000	NZD \$000	USD \$000
Cash and cash equivalents	2,301	60	14	8
Trade receivables	646	16	-	-
Trade and other payables	(1,903)	(53)	-	(3)
Net exposure	1,044	23	14	5

	31 December 2011			
	GBP £000	EUR €000	NZD \$000	USD \$000
Cash and cash equivalents	1,180	75	24	9
Trade receivables	955	29	116	-
Trade and other payables	(1,109)	(51)	(44)	(3)
Net exposure	1,026	53	96	6

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
AUD				
EUR	0.8061	0.7412	0.7868	0.7847
GBP	0.6536	0.6434	0.6428	0.6589
USD	1.0358	1.0320	1.0384	1.0156
NZD	1.2787	1.3053	1.2608	1.3146

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Instruments (continued)

(d) Currency risk management (continued)

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 2011:

	Equity \$000	Profit or loss \$000
31 December 2012		
EUR	(10)	3
GBP	(1,820)	(513)
USD	(1)	(205)
NZD	(2)	4
31 December 2011		
EUR	121	49
GBP	(822)	(22)
USD	190	-
NZD	(4)	3

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

(e) Liquidity risk management

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

Non-derivatives	Carrying Amount \$000	Contractual cash flow \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000
31 December 2012					
Trade and other payables	6,513	(6,513)	(6,513)	-	-
Term loans	-	-	-	-	-
Secured note facility	54,363	(57,966)	(37,009)	(16,634)	(4,323)
	<u>60,876</u>	<u>(64,479)</u>	<u>(43,522)</u>	<u>(16,634)</u>	<u>(4,323)</u>
31 December 2011					
Trade and other payables	6,606	(6,606)	(6,606)	-	-
Term loans	2,427	2,616	2,616	-	-
Secured note facility	53,722	(57,766)	(39,964)	(14,302)	(3,500)
	<u>62,755</u>	<u>(61,756)</u>	<u>(43,954)</u>	<u>(14,302)</u>	<u>(3,500)</u>
Derivatives					
31 December 2012					
Interest rate swaps used for hedging	128	(128)	(113)	(15)	-
	<u>128</u>	<u>(128)</u>	<u>(113)</u>	<u>(15)</u>	<u>-</u>
31 December 2011					
Interest rate swaps used for hedging	297	(297)	(227)	(65)	(5)
	<u>297</u>	<u>(297)</u>	<u>(227)</u>	<u>(65)</u>	<u>(5)</u>

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Related Party Disclosures

The following were Key Management Personnel of the Group at any time during the reporting period and unless otherwise indicated were Key Management Personnel for the entire period:

Non-Executive Directors

D Griffiths (Deputy Chairman)
S Penglis
F de Vicente
N Fox

Executive Directors

N Montarello (Executive Chairman and Chief Executive Officer)

Executives

A Baum (Group Chief Operating Officer)
G Halton (Managing Director (acting) – UK) – appointed 1 October 2012
A Stevens (Group Chief Financial Officer) – appointed 28 March 2012
G Varma (Group Chief Information Officer)
A Deller (Managing Director – Europe) – from 23 January 2012 to 30 September 2012
J Ferreira (Group Chief Financial Officer (acting)) – until 28 March 2012
S McDonagh (Executive General Manager) – until 30 November 2012
G Parry (Managing Director - UK) – until 30 April 2012

The Key Management Personnel remuneration included in ‘employee benefits expense’ in Note 6(d) is as follows:

	2012	2011
	\$	\$
Short-term employee benefits	2,735,118	2,537,505
Post-employment benefits	312,656	317,933
Other long-term benefits	69,064	(36,735)
Share-based payment	287,943	534,908
	<u>3,404,781</u>	<u>3,353,611</u>

The Key Management Personnel receive no remuneration in relation to management of the Company (2011: nil).

Individual Directors and Executives Remuneration Disclosures

Information regarding individual Directors and Executives remuneration 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 Key Management Personnel and their related parties

There have been no loans provided to Key Management Personnel and their related parties as at 31 December 2012 (2011: nil), with the exception of the limited recourse loans in relation to the loan-funded share scheme (refer to note 20(b)(i) and the Remuneration Report section of the Directors Report)

Other Key Management Personnel transactions

During the year and previous year, there has been no transaction with entities in which the Key Management Personnel 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 (continued)

Employee options

2012	Held at 1 January 2012	Held at date of new appointment	Granted as compensation	Other movement	Lapsed or forfeited	Held at 31 December 2012	Vested during the year	Vested and exercisable at 31 December 2012
Directors								
N Montarello	3,000,000	-	-	-	-	3,000,000	1,000,000	1,000,000
D Griffiths	-	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-	-
N Fox	-	-	-	-	-	-	-	-
Executives								
A Baum	666,666	-	-	-	-	666,666	-	-
G Halton	-	350,000	100,000	-	-	450,000	150,000	150,000
A Stevens	-	-	-	-	-	-	-	-
G Varma	350,000	-	-	-	-	350,000	-	-
J Ferreira	400,000	-	-	-	(400,000)	-	-	-
S McDonagh	250,000	-	-	(250,000)	-	-	-	-
G Parry	700,000	-	-	-	(700,000)	-	-	-
2011	Held at 1 January 2011	Held at date of new appointment	Granted as compensation	Other movement (i)	Lapsed or forfeited	Held at 31 December 2011	Vested during the year	Vested and exercisable at 31 December 2011
Directors								
N Montarello	2,000,000	-	1,000,000	-	-	3,000,000	-	-
D Griffiths	-	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-	-
N Fox	-	-	-	-	-	-	-	-
Executives								
A Baum	333,333	-	333,333	-	-	666,666	-	-
G Varma	250,000	-	100,000	-	-	350,000	-	-
N Barker	1,113,33	-	-	-	(479,999)	n/a	-	-
J Ferreira	250,000	-	150,000	-	-	400,000	-	-
S McDonagh	-	-	250,000	-	-	250,000	-	-
G Parry	780,000	-	200,000	-	(280,000)	700,000	-	-

Movements in loan-funded shares granted as compensation are set out in the following movements in shares table.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29. Related Party Disclosures (continued)

Movement in shares

The movement during the reporting period in the number of ordinary shares in ThinkSmart Limited held, directly, indirectly or beneficially, by each Key Management Person, including their related parties, is as follows:

	Held at 1				Received on	Loan-funded	Granted as	Held at 31
2012	January 2012	Purchases	Rights issue	Sales	exercise of	share issue	compensation	December 2012*
					options			
Directors								
N Montarello	22,520,297	1,535,000	4,504,059	-	-	1,000,000	-	29,559,356
D Griffiths	2,160,000	-	432,001	-	-	-	-	2,592,001
S Penglis	1,272,600	-	-	-	-	-	-	1,272,600
F de Vicente	-	356,500	-	-	-	-	-	356,500
N Fox	68,000	-	13,600	-	-	-	-	81,600
Executives								
A Baum	751,910	100,000	149,222	-	-	333,333	125,000	1,459,465
A Stevens	-	-	-	-	-	500,000	-	500,000
G Varma	-	-	-	-	-	200,000	-	200,000
S McDonagh	11,000	-	-	-	-	200,000	-	n/a
G Parry	25,357	-	-	-	-	-	-	n/a
	Held at 1				Received on	Loan-funded	Granted as	Held at 31
2011	January 2011	Purchases	Rights issue	Sales	exercise of	share issue	compensation	December 2011*
					options			
Directors								
N Montarello	22,020,297	500,000	-	-	-	-	-	22,520,297
D Griffiths	2,160,000	-	-	-	-	-	-	2,160,000
S Penglis	1,272,600	-	-	-	-	-	-	1,272,600
F de Vicente	-	-	-	-	-	-	-	-
N Fox	68,000	-	-	-	-	-	-	68,000
Executives								
A Baum	626,910	-	-	-	-	-	125,000	751,910
G Varma	185,082	-	-	(185,082)	-	-	-	-
N Barker	547,999	-	-	-	-	-	-	n/a
S McDonagh	12,713	10,000	-	(11,713)	-	-	-	11,000
G Parry	25,357	-	-	-	-	-	-	25,357

n/a: Where personnel are no longer employed on the report 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 (continued)

* The following shares are subject to escrow as at 31 December 2012 (refer to Note 22(b)(ii)):

	Held at 31 December 2012	Held at 31 December 2011
Executive		
A Baum	600,000	475,000

30. Subsequent Events

On 4 February 2013, ThinkSmart announced that it had extended its contractual relationship with JB Hi-Fi Limited to the second half of 2015. As part of the agreement, ThinkSmart and JB Hi-Fi agreed to offer ThinkSmart's payment plan product, Fido, to JB Hi-Fi's customers throughout the term of the new agreement.

31. Earnings per Share

	2012 \$000	2011 \$000
(Loss)/profit after tax from continuing operations attributable to ordinary shareholders (basic and diluted)	(1,441)	6,798
	2012 Number	2011 Number
Weighted average number of ordinary shares (basic and diluted)	151,546,324	129,921,171
	2012	2011
Earnings per share		
Basic (loss)/earnings per share (cents)	(0.95)	5.23
Diluted (loss)/earnings per share (cents)	(0.95)	5.23

At 31 December 2012 6,366,667 options (2011: 7,166,667) 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 2012, the parent entity of the Group was ThinkSmart Limited.

	2012	2011
	\$000	\$000
Result of parent entity		
(Loss)/profit for the period	(186)	649
Other comprehensive income	-	(26)
Total comprehensive income for the period	<u>(186)</u>	<u>623</u>
Financial position of parent entity at year end		
Current assets	<u>574</u>	<u>693</u>
Total assets	<u>41,878</u>	<u>35,045</u>
Current liabilities	<u>337</u>	<u>1,707</u>
Total liabilities	<u>345</u>	<u>1,733</u>
Total equity of the parent entity comprising of:		
Share capital	48,289	39,664
Share-based payment reserve	526	744
Retained earnings	<u>(7,282)</u>	<u>(7,096)</u>
Total equity	<u>41,533</u>	<u>33,312</u>

Parent entity contingencies

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.

The parent entity has issued an unlimited parental guarantee in favour of its UK clearing bank to guarantee the obligations of RentSmart Limited with respect to its Direct Debit and corporate credit card facilities.

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



Independent auditor's report to the members of ThinkSmart Limited

Report on the financial report

We have audited the accompanying financial report of ThinkSmart Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, 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 financial position and of their performance.

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



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 2012 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 on pages 4 to 14 of the directors' report for the year ended 31 December 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Matthew Beevers
Partner

Perth

19 February 2013

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
N Fox

Company Secretary

A Stevens

Registered Office

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1260 Hay Street
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Australia

Principal Place of Business

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Phone: +61 8 9463 7500

Share Register

Computershare Investor Services Pty Limited
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Perth WA 6000
Australia
Phone: 1300 850 505

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

Solicitors

Herbert Smith Freehills
250 St Georges Terrace
Perth WA 6000
Australia

Auditors

KPMG
235 St Georges Terrace
Perth WA 6000
Australia

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000
Australia