

## APPENDIX 4E

### ANNUAL REPORT

**THINKSMART LIMITED**  
**ACN 092 319 698**

#### YEAR ENDED 31 DECEMBER 2008

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

Current period:	1 January 2008 to 31 December 2008
Prior corresponding period:	1 January 2007 to 31 December 2007

- 2 Results for announcement to the market

Key Information	Year Ended 31	Year Ended 31	Increase on	Increase on
	December 2008	December 2007	Previous	Previous
	\$	\$	Period	Period
			\$	%
Operating income	38,898,513	36,354,265	2,544,248	7%
Profit after tax attributable to members of ThinkSmart Limited	3,210,752	738,066	2,472,686	335%
Profit after tax attributable to members of ThinkSmart Limited	3,210,752	738,066	2,472,686	335%

Dividends	Amount per security	Franked amount per security
<b>Current period - 2008</b>		
Interim dividend - paid on 13 October 2008	2 cents	40%
Final dividend	1.5 cents	100%
<b>Previous corresponding period - 2007</b>		
None		

#### Record date for determining entitlements to the dividends:

The record date for the 2008 final dividend is 1 April 2009.

#### Brief explanation on Revenue, Net Profit and Dividend:

Refer to the 2008 annual report

- 3 Consolidated income statement

Refer to the 2008 annual report.

- 4 Consolidated balance sheet

Refer to the 2008 annual report.

- 5 Consolidated cash flow statement

Refer to the 2008 annual report.

- 6 Dividend details

The Directors has declared a 2008 final dividend of 1.5 cents per ordinary share, which will be paid on the 14 April 2009.

- 7 Dividend or distribution reinvestment plans

ThinkSmart Limited does not currently operate a dividend reinvestment plan.

8 Retained earnings

	Year Ended 31 December 2008 \$	Year Ended 31 December 2007 \$
Balance at the beginning of the financial year	(6,163,659)	(6,901,724)
Dividend paid	(1,933,788)	-
Profit attributable to equity shareholders of ThinkSmart Limited	3,210,752	738,066
Total retained earnings	(4,886,695)	(6,163,659)

9 Net tangible assets per security

	Year Ended 31 December 2008 \$	Year Ended 31 December 2007 \$
Ordinary shares	0.08	0.05

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
None	

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 2008 annual report.

13 Foreign entities

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

14 Commentary on results for the financial year

Refer to the 2008 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.

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**THINKSMART LIMITED**

**FINANCIAL REPORT  
FINANCIAL YEAR ENDED**

**31 DECEMBER 2008**

**THINKSMART LIMITED**  
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**THINKSMART LIMITED  
CORPORATE INFORMATION**

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**ABN 24 092 319 698**

**Directors**

P Mansell (Chairman)  
N R Montarello (Managing Director)  
D Griffiths  
S Penglis

**Company Secretary**

N Barker

**Registered Office**

Level 1, The West Centre  
1260 Hay Street  
West Perth, WA 6005  
Australia

**Principal place of business**

Level 1, The West Centre  
1260 Hay Street  
West Perth, WA 6005  
Australia  
Phone: 61 8 9463 7500

**Share Register**

Computershare Investor Services Pty Limited  
Level 2, 45 St Georges Terrace  
Perth, WA 6000  
Australia  
Phone: 1300 850 505

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

**Solicitors**

Freehills  
250 St Georges Terrace  
Perth, WA 6000  
Australia

**Bankers**

ANZ  
West Perth  
Australia

**Auditors**

KPMG  
Australia

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## THINKSMART LIMITED DIRECTORS' REPORT

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The Directors of ThinkSmart Limited (the "Company") submit herewith the annual financial report of the Company and the Group for the financial year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### DIRECTORS

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

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

##### **Peter Mansell (Age 62)**

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

*Non-Executive Chairman*

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

##### **David Griffiths (Age 58)**

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

*Non-Executive Director*

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

Mr Griffiths is currently non-executive Chairman of Great Southern Limited; deputy chairman of Automotive Holdings Group Limited and a non-executive director of Northern Iron Limited. Mr Griffiths served as non-executive Chairman of ARC Energy Limited until its merger with Australia Wide Exploration in August this year and a non-executive director of Antaria Limited until November 2008 and has not been a director of any other listed company, other than those noted here, as at the reporting date or in the past three years.

Mr Griffiths is also a director of the Perth International Arts Festival.

##### **Ned Montarello (Age 47)**

*Managing Director and Chief Executive Officer*

Ned Montarello has over 20 years experience in the finance industry and joined the board on 7 April 2000. Mr Montarello founded ThinkSmart over 10 years ago and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government's Entrepreneur of the Year Award in 1998. He steered the expansion of the business into Europe in 2002/2003, establishing agreements with the UK's largest electrical retailer, DSG International and the Halifax Bank of Scotland. Following the establishment of a beachhead European operations centre in Manchester, England, Mr Montarello has driven its growth across Europe where it now also operates in Spain, France and Italy.

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

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**Steven Penglis (Age 48)**

B. Juris and B. Law

*Non-Executive Director*

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

**COMPANY SECRETARY**

**Neil Barker** B.Bus, FCPA

Neil Barker is a Certified Practising Accountant (Fellow) with over 24 years experience in banking and finance. Prior to joining ThinkSmart, Mr Barker was the Group Financial Controller of Alinta Limited, an Australian public listed company. Prior to joining Alinta, he was employed with the NAB Group in senior finance roles based in the UK and Australia.

**DIRECTORS' MEETINGS**

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

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meeting	
	A	B	A	B	A	B
Peter Mansell	8	8	2	2	1	1
David Griffiths	8	8	2	2	1	1
Ned Montarello	8	8	-	-	1	1
Steven Penglis	7	8	-	-	1	1

**A** – Number of meetings attended

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

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# THINKSMART LIMITED

## DIRECTORS' REPORT

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### CORPORATE GOVERNANCE STATEMENT

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

#### Board of Directors

##### Role of the Board

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

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

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

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

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

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

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

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

##### Board process

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

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

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



## THINKSMART LIMITED DIRECTORS' REPORT

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### Composition of the board

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

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

### **Nomination and Remuneration Committee**

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

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

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

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

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

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

### **Remuneration Report - Audited**

The remuneration report for 2008, as presented below, has been prepared for consideration by shareholders. The remuneration report is set out under the following main headings:

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

## THINKSMART LIMITED DIRECTORS' REPORT

### A. Principles of compensation - audited

Remuneration is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the Group including the five most highly remunerated s300A executives.

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

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

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

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

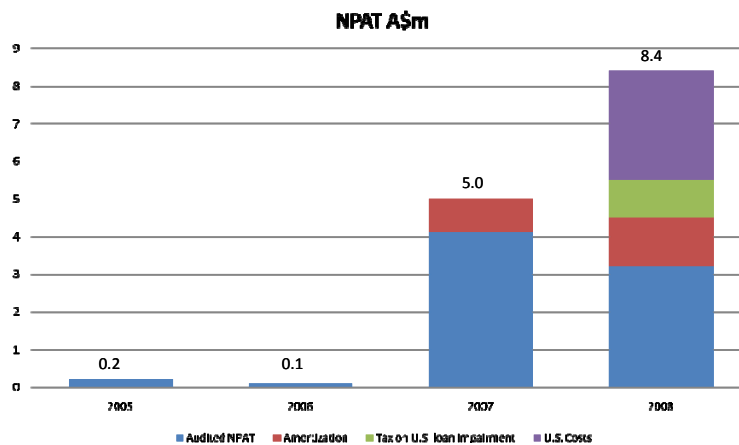
- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance

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

#### *Linking Executive Remuneration to Group Performance*

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

The Group's results for the 2008 financial year show growth in profitability.



In addition, the following partly franked dividends have been or will be paid:

- 2 cents per share paid on 13 October 2008
- 1.5 cents per share will be paid on 14 April 2009

Consistent with the steady growth in performance, the level of Executives' (including the Managing Director) remuneration has increased over this period.

## THINKSMART LIMITED DIRECTORS' REPORT

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

Date	Per Ordinary Share
30 June 2007	\$2.22
31 December 2007	\$1.92
30 June 2008	\$0.82
31 December 2008	\$0.19

### *Non-Executive Directors*

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

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

The non-executive directors shall be paid by way of fees for services the maximum aggregate sum as may be approved from time to time by ThinkSmart in general meeting. The current maximum aggregate annual sum approved by shareholders at a previous general meeting is \$600,000 (2007: \$600,000). Any change to that aggregate annual sum needs to be approved by the shareholders. The constitution also makes provision for ThinkSmart to pay all reasonable expenses of directors in attending meetings and carrying out their duties.

### *Executive pay*

The Company's remuneration is market competitive and aims to attract, retain and motivate high calibre employees who contribute to the sustained growth of the ThinkSmart business with a mix of the following four components:

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

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

Remuneration is reviewed annually. In reviewing each Executives' salary, consideration is given to external competitiveness, position responsibilities and individual skills and experience. For 2008, the STI component of Executive remuneration is based on annual performance targets and delivered in the form of cash. For the 2009 financial year, the Company is proposing to introduce a new Long Term Incentive Plan subject to shareholder approval.

### *Base pay*

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

### *Short-term performance incentive*

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

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

## THINKSMART LIMITED DIRECTORS' REPORT

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Using various profit performance targets and personal performance objectives assessed against KPIs which are aligned with achievement of the Board's strategic objectives, the Company ensures variable reward is only paid when value has been created for shareholders. For middle and lower level management, total STIs are linked to individual performance measures and also to the financial performance of the business. The STI is delivered in the form of cash.

For the 2008 financial year, STI performance targets for Executives were based on the respective territories' targets of Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"), penetration rate, application volumes, settlement volumes, Average Transaction Value ("ATV") and territory expansion targets. These targets were selected on the basis that the Group has, and is likely to have for sometime, a small number of experienced executives and ensuring that employment practices support and encourage continuity of team engagement with sustained and profitable growth of the Company.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Senior Executives. The STI target annual payment is reviewed annually. Information on the STI is detailed on section E of the Remuneration Report.

### *Long term incentive*

Long-term incentives to the Chief Executive Officer and certain senior employees were historically provided via the ThinkSmart Limited Employee Share Option Plan ("ESOP") as a retention based reward. The Company has a pre-existing ESOP, as an equity-based long-term incentive, which was initiated before the Company was listed. Given the retention focus of these grants, vesting of the options is subject to service conditions and not linked to satisfaction of performance targets. There has been no retention based options granted since the Company's listing in June 2007. The Board will be considering a new structure of performance based long term incentives for the Chief Executive Officer and certain senior employees of the Group, which will be subject to shareholder approval in 2009.

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

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

#### *Amount of remuneration*

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

The Key Management Personnel of ThinkSmart Limited are the Directors and certain executives that report directly to the Chief Executive Officer. This includes the five Group executives who received the highest remuneration for the year ended 31 December 2008.

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

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

**THINKSMART LIMITED  
DIRECTORS' REPORT**

		Short Term				Post employment	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fee	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits		Options and rights			
Consolidated		\$	\$	\$	\$	\$	\$	\$	%	%	
<b>Directors</b>											
<b>Non-Executive Directors</b>											
P Mansell	2008	70,000	-	-	70,000	6,300	-	-	76,300	-	-
	2007	48,112	-	-	48,112	4,330	-	-	52,442	-	-
S Penglis	2008	50,000	-	-	50,000	4,500	-	-	54,500	-	-
	2007	57,850	-	-	57,850	5,206	-	-	63,056	-	-
D Griffiths	2008	50,000	-	-	50,000	4,500	-	-	54,500	-	-
	2007	50,000	-	-	50,000	4,500	-	-	54,500	-	-
C McDonald *	2008	-	-	-	-	-	-	-	-	-	-
	2007	14,038	-	-	14,038	1,263	-	-	15,301	-	-
<b>Executive Director</b>											
N Montarello	2008	537,545	-	-	537,545	48,379	-	8,775	594,699	1%	1%
	2007	530,721	-	-	530,721	47,765	-	10,019	588,505	2%	2%
<b>Executives</b>											
N Barker	2008	277,294	-	-	277,294	24,956	-	7,354	309,604	2%	2%
	2007	251,411	-	-	251,411	22,627	-	6,997	281,035	2%	2%
M Radotic	2008	277,093	20,000	3,068	300,160	13,853	-	2,812	316,826	7%	1%
	2007	140,000	11,000	-	151,000	13,590	-	2,468	167,058	8%	1%
S McDonagh **	2008	112,500	-	-	112,500	10,039	-	-	122,539	0%	0%
	2007	-	-	-	-	-	-	-	-	0%	0%
G Varma	2008	231,826	18,000	-	249,826	22,484	-	9,974	282,284	4%	4%
	2007	169,266	-	-	169,266	15,385	-	9,947	194,598	5%	5%
G Parry	2008	259,962	32,723	12,099	304,783	12,998	-	2,812	320,594	11%	1%
	2007	262,616	23,979	10,639	297,234	13,678	-	2,468	313,379	8%	1%
J Rozenbroek	2008	228,065	26,014	25,696	279,775	17,452	-	2,812	300,040	10%	1%
	2007	241,437	134,450	27,214	403,101	19,315	-	2,468	424,884	32%	1%
<b>Total</b>	<b>2008</b>	<b>2,094,284</b>	<b>96,737</b>	<b>40,862</b>	<b>2,231,883</b>	<b>165,462</b>	<b>-</b>	<b>34,541</b>	<b>2,431,886</b>	<b>5%</b>	<b>1%</b>
<b>Total</b>	<b>2007</b>	<b>1,765,451</b>	<b>169,429</b>	<b>37,853</b>	<b>1,972,733</b>	<b>147,659</b>	<b>-</b>	<b>34,367</b>	<b>2,154,758</b>	<b>9%</b>	<b>2%</b>

\* Mr C McDonald resigned on 11 April 2007.

\*\* Mr S McDonagh is appointed on 10 July 2008.

The Company has no employees.

## THINKSMART LIMITED DIRECTORS' REPORT

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### C. Service agreements - audited

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

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

In the event of retrenchment, the executives listed in the table on page 9 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 - audited

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

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

No options are granted in 2008 or since the end of the financial year.

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

In 2007, the board made a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO.

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

#### *Exercise of options granted as compensation - audited*

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

	<b>No of shares</b>	<b>Amount paid \$/share</b>
<b>2008</b>		
N Montarello	805,893	\$1.125
G Varma	280,000	\$0.4375
G Varma	93,333	\$0.625

#### **2007**

No options were exercised in 2007.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2008 financial year.

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

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

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

	Number before Share Split	Options granted		% vested in year	% forfeited in year	Financial year in which grant vest	Value yet to vest 31 December 2008 (\$)	
		Number after Share Split	Grant Date				Min	Max
<b>Granted in 2008</b>								
No options are issued in 2008.								
<b>Granted in 2007</b>								
<b>Executives</b>								
N Barker	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	-
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
M Radotic	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	-
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
G Parry	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	-
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-
J Rozenbroek	40,000	160,000	17/04/07	0%	0%	1/01/2009	-	-
	30,000	120,000	17/04/07	0%	0%	1/01/2009	-	-

- (a) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.
- (b) The minimum value of options yet to vest is \$nil as the service criteria may not be met and consequently the option may not vest.
- (c) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the option is exercised. The maximum values presented above are based on share price as at 31 December 2008. As at 31 December 2008, the maximum value is nil as the options are out of the money.

*Analysis of movement of options - audited*

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

	Granted in year \$ (a)	Exercised in year \$ (b)	Lapsed in year \$ (c)
<b>Directors</b>			
N Montarello	-	(60,442)	-
<b>Executives</b>			
G Varma	-	535,966	-
	-	475,524	-

- (a) The value of options granted in the year is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

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

- (b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a binomial option-pricing model with no adjustments for whether the performance criteria had been achieved. In 2008, lapsed options have nil value as they were out of the money when they expired.

**E. Bonus remuneration - audited**

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

	Short term incentive bonus		
	Included in remuneration \$ (a)	% vested in year	% forfeited in year (b)
<b>2008</b>			
<b>Directors</b>			
N Montarello	-	-	-
<b>Executives</b>			
N Barker	-	-	-
S McDonagh	-	-	-
M Radotic	20,000	100%	-
G Varma	18,000	100%	-
G Parry	32,723	75%	25%
J Rozenbroek	26,014	27%	73%
<b>2007</b>			
<b>Directors</b>			
N Montarello	-	-	-
<b>Executives</b>			
N Barker	-	-	-
M Radotic	11,000	100%	-
G Varma	-	-	-
G Parry	23,979	100%	-
J Rozenbroek	134,450	100%	-

- (a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008 financial year.
- (b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

**Audit and Risk Committee**

The audit and risk committee has a documented charter, approved by the Board, which is available on the website ([www.thinksmartworld.com](http://www.thinksmartworld.com)). All members must be non-executive directors with a majority being independent. The Chairperson may not be the Chairperson of the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

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

The Committee's primary roles are:

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



## THINKSMART LIMITED DIRECTORS' REPORT

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

### **Risk Management**

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

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

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

### Financial reporting

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

### Environmental regulation

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

### **Ethical standards**

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

### Conflict of interest

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

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

## THINKSMART LIMITED DIRECTORS' REPORT

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### Code of conduct

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

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

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

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

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

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

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

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

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

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

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

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

### **Disclosure Policy**

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

ThinkSmart's Disclosure Policy is summarised below.

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

## **THINKSMART LIMITED DIRECTORS' REPORT**

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### **Communication with shareholders**

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

In summary, the Continuous Disclosure Policy operates as follows:

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

### **PRINCIPAL ACTIVITIES**

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

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

### **OPERATING AND FINANCIAL REVIEW**

The after tax net profit of the consolidated entity, being ThinkSmart Limited and its controlled entities (the "Group" or "consolidated entity"), for the year was \$3,210,752 (2007: \$738,066 which includes \$3,352,489 net of income tax of listing costs).

The period has seen the Group expand its revenue base through the partnership with The Warranty Group to deliver warranty products and services in Australia and New Zealand through the Dick Smith Electronics, Powerhouse and Tandy chains. European operations expanded in March 2008 with the launch into the Italian market through an agreement with PC City, the computer retailing arm of electrical retailing giant DSG International. In addition, agreements with PC World and PC City were extended through to 31 December 2012, effectively extending the existing 5 year contracts by more than 2 years.

In April 2008 ThinkSmart commenced trading in United States with Office Depot, a leading provider of office products and services. Over the course of 2008 the SmartWay Leasing product was introduced to all Office Depot stores in Florida, Texas and California. In December 2008 ThinkSmart postponed writing of new business in United States due to the uncertainty about the length and depth of the economic downturn, restrictive credit conditions and continuing volatility of currency exchange rates. The Group is not expected to incur costs in relation to the US operations in 2009.

The Group continues to consolidate its position in Australia, UK and Spain with post-rental revenue streams ("inertia") increasing European profitability. Against soft retail trading conditions in all countries UK and Australia have increased application volumes by 11% year on year as a result of improved penetration through existing retail relationships. The deteriorating credit environment has seen conversion rates fall with contract volumes reducing by 3% and 1% in UK and Australia. Spain has seen a reduction in application and contract volumes of 19% and 38% respectively reflecting the dramatic deterioration in the Spanish economy in 2008.

### **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

During the financial year there were no significant changes in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

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

**DIVIDEND**

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

	Cents per share	Total amount	Franked/ unfranked	Date of payment
<b>Declared and paid during the year 2008</b>				
Interim 2008 ordinary	2	1,933,788	Franked	13 October 2008

**Declared after year end**

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

Final 2008 ordinary	1.5	1,450,340	Franked	14 April 2009
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The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2008 and will be recognised in subsequent financial reports.

Dividends have been dealt within the financial report as:

	Note	Total amount (\$)
<b>Declared and paid during the year 2008</b>		
Interim 2008 ordinary	22(c)	1,933,788

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

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

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Group will continue to execute its strategic plan to grow revenue by increasing business volumes through existing retail partnerships in UK, Spain, Italy, France Australia and New Zealand. In mainland Europe the Group will pursue a multi-channel retailer model akin to the Australian business which should deliver market share gains in selected territories. Operations commenced in France in January 2009.

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

**DIRECTORS' INTERESTS**

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

	<b>ThinkSmart Limited</b>	
	<b>Number of ordinary shares</b>	<b>Number of options granted over ordinary shares</b>
N Montarello	17,253,192	2,800,000
P Mansell	1,300,000	-
S Penglis	1,610,500	-
D Griffiths	1,613,360	-

## THINKSMART LIMITED DIRECTORS' REPORT

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### SHARE OPTIONS

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

During or since the end of the financial year, the Company granted no options to the directors and officers of the Company as part of their remuneration.

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

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

Number of shares	Amount paid on each share
760,000	\$0.4375
93,333	\$0.6250
805,893	\$1.1250

#### Unissued shares under options

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

Number of shares under option	Exercise price of options	Expiry date of options
1,400,000	\$1.38	27 August 2009
1,400,000	\$1.63	27 August 2010
1,026,667	\$0.63	31 December 2010
640,000	\$1.38	31 December 2011
720,000	\$3.00	31 December 2011

All options expire on the earlier of their expiry date or termination of the employee's employment. Further details are included in the remuneration report on page 5 to 12.

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

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

### NON-AUDIT SERVICES

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

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

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

**THINKSMART LIMITED  
DIRECTORS' REPORT**

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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 27.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration which forms part of this report, is included in page 19 of the financial report.

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

On behalf of the Directors



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P Mansell  
Director  
Perth, 20 February 2009

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***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 2008 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

D P McComish  
*Partner*

Perth

Dated: 20 February 2009

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

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1. In the opinion of the Directors of ThinkSmart Limited (the "Company"):
  - a) The financial statements and notes and the remuneration disclosures that are designated as audited in the Remuneration report of the Directors' report, set out on pages 2 to 75, are in accordance with the Corporations Act 2001, including:
    - I. Giving a true and fair view of the Company's and the Group's financial position as at 31 December 2008 and of their performance, for the financial year ended on that date; and
    - II. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b) The financial report also complies with International Financial Reporting Standards as disclosed in note 2;
  - c) The remuneration disclosures that are designated as audited in the Remuneration report of the Director's report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures, Corporations Act 2001 and the Corporations Regulations 2001, and
  - d) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2008.

Signed in accordance with a resolution of the directors:



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P Mansell  
Director  
Perth, 20 February 2009



**Income Statements**  
**For the Financial Year Ended 31 December 2008**

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	6(a)	38,898,513	36,354,265	3,300,000	1,500,000
Employee benefits expense	6(b)	(12,713,514)	(10,057,089)	-	-
Sales and marketing costs		(8,857,676)	(10,098,403)	(8,218)	(19,661)
Occupancy costs		(1,144,374)	(843,651)	-	-
Communication costs		(737,612)	(541,199)	(1,157)	-
Doubtful and bad debts		(233,259)	(247,467)	-	-
Legal and consulting costs		(1,753,997)	(507,112)	(220,425)	(107,040)
Credit bureau costs		(480,204)	(502,554)	-	-
Corporate development costs		(1,816,118)	(1,971,953)	(78,671)	(1,348)
Impairment costs	6(f)	-	-	-	5,259,676
Insurance costs		(91,092)	-	(13,148)	-
Other expenses	6(g)	(2,258,737)	(3,326,225)	(51,057)	(22,411)
<b>EBITDA before capital listing costs and restructuring costs</b>		8,811,930	8,258,611	2,927,324	6,609,216
Finance (costs)/benefits	6(e)	(475,354)	(570,225)	1,731,091	34,141
Depreciation expense	6(c)	(409,686)	(439,002)	-	-
<b>EBTA before capital listing costs and restructuring costs</b>		7,926,890	7,249,384	4,658,415	6,643,357
Amortisation of intangibles	6(d)	(1,809,768)	(1,132,307)	-	-
Listing costs	6(h)	-	(4,195,856)	-	(4,195,856)
Restructuring costs	6(i)	(416,184)	-	-	-
<b>Profit before Tax</b>		5,700,938	1,921,221	4,658,415	2,447,501
Income tax (expense)/benefit	7	(2,490,186)	(1,183,155)	(1,246,757)	450,150
<b>Profit from continuing operations</b>		3,210,752	738,066	3,411,658	2,897,651
<b>Earnings per share</b>					
Basic (cents per share)	33	3.34	0.80		
Diluted (cents per share)	33	3.22	0.73		

The attached notes form an integral part of these Income Statements

**THINKSMART LIMITED**  
**BALANCE SHEETS**

**Balance Sheets**  
**As At 31 December 2008**

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	24(a)	4,547,371	5,059,229	596,205	525,962
Trade and other receivables	8	1,624,270	1,721,456	-	-
Inventories	9	65,520	63,433	-	-
Prepayment	10	4,509,891	4,035,396	14,164	15,128
Other	11	193,370	171,487	1,417	10,111
<b>Total Current Assets</b>		<b>10,940,422</b>	<b>11,051,001</b>	<b>611,786</b>	<b>551,201</b>
<b>Non-Current Assets</b>					
Trade and other receivables	8	210,384	-	-	-
Prepayment	12	3,648,041	2,346,693	-	-
Plant and equipment	13	1,260,955	554,775	-	-
Other financial assets	14	-	-	23,913,494	18,166,772
Intangibles	15	4,552,680	5,488,262	-	-
Goodwill	16	4,861,551	5,284,678	-	-
Deferred tax assets	7	965,568	2,037,291	1,079,252	2,157,616
<b>Total Non-Current Assets</b>		<b>15,499,179</b>	<b>15,711,699</b>	<b>24,992,746</b>	<b>20,324,388</b>
<b>Total Assets</b>		<b>26,439,601</b>	<b>26,762,700</b>	<b>25,604,532</b>	<b>20,875,589</b>
<b>Current Liabilities</b>					
Trade and other payables	18	4,791,522	5,635,677	42,229	5,213
Borrowings	19	2,575,440	2,106,572	2,459,304	-
Tax payable		1,465,564	2,130,577	884,425	1,556,563
<b>Total Current Liabilities</b>		<b>8,832,526</b>	<b>9,872,826</b>	<b>3,385,958</b>	<b>1,561,776</b>
<b>Non-Current Liabilities</b>					
Borrowings	20	-	33,040	-	-
Deferred tax liability	7	662,343	1,144,475	-	-
Other	21	38,648	104,975	-	-
<b>Total Non-Current Liabilities</b>		<b>700,991</b>	<b>1,282,490</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>		<b>9,533,517</b>	<b>11,155,316</b>	<b>3,385,958</b>	<b>1,561,776</b>
<b>Net (Liabilities)/Assets</b>		<b>16,906,084</b>	<b>15,607,384</b>	<b>22,218,574</b>	<b>19,313,813</b>
<b>Equity/(Deficiency)</b>					
Issued Capital	22	23,614,091	22,242,200	23,614,091	22,242,200
Reserves	23	(1,821,312)	(471,157)	147,142	92,142
Accumulated losses		(4,886,695)	(6,163,659)	(1,542,659)	(3,020,529)
<b>Total Equity</b>		<b>16,906,084</b>	<b>15,607,384</b>	<b>22,218,574</b>	<b>19,313,813</b>

The attached notes form an integral part of these Balance Sheets

**THINKSMART LIMITED**  
**STATEMENTS OF CHANGES IN EQUITY**

**Statements of Changes in Equity**  
**for the financial year ended 31 December 2008**

<b>Consolidated</b>	<b>Fully paid ordinary shares</b>	<b>Equity settled employee benefits reserve</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated Losses</b>	<b>Attributable to equity holders of the parent</b>
	\$	\$	\$	\$	\$
Balance at 1 January 2007	9,842,393	37,434	(227,847)	(6,901,724)	2,750,256
Exchange differences arising on translation of foreign operations	-	-	(335,452)	-	(335,452)
Net income recognised directly in equity	-	-	(335,452)	-	(335,452)
Profit for the period	-	-	-	738,066	738,066
Total recognised income and expense	-	-	(335,452)	738,066	402,614
Recognition of share-based payments	-	54,708	-	-	54,708
Issue of shares	12,399,807	-	-	-	12,399,807
Balance at 31 December 2007	<u>22,242,200</u>	<u>92,142</u>	<u>(563,299)</u>	<u>(6,163,659)</u>	<u>15,607,384</u>
Balance at 1 January 2008	22,242,200	92,142	(563,299)	(6,163,659)	15,607,384
Exchange differences arising on translation of foreign operations	-	-	(1,405,155)	-	(1,405,155)
Net income recognised directly in equity	-	-	(1,405,155)	-	(1,405,155)
Profit for the period	-	-	-	3,210,752	3,210,752
Total recognised income and expense	-	-	(1,405,155)	3,210,752	1,805,597
Dividend paid	-	-	-	(1,933,788)	(1,933,788)
Recognition of share-based payments	-	55,000	-	-	55,000
Adjustment for tax on capitalised IPO cost	74,428	-	-	-	72,428
Issue of shares under share option plan	1,297,463	-	-	-	1,297,463
Balance at 31 December 2008	<u>23,614,091</u>	<u>147,142</u>	<u>(1,968,454)</u>	<u>(4,886,695)</u>	<u>16,906,084</u>

The attached notes form an integral part of these Statements of Changes in Equity.

**Statements of Changes in Equity**  
**for the financial year ended 31 December 2008**

<b>Company</b>	<b>Fully paid ordinary shares \$</b>	<b>Equity settled employee benefits reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total \$</b>
Balance at 1 January 2007	9,842,393	37,434	(5,918,180)	3,961,647
Profit for the period	-	-	2,897,651	2,897,651
Total recognised income and expense	9,842,393	37,434	(3,020,529)	6,859,298
Recognition of share-based payments	-	54,708	-	54,708
Issue of new shares	12,399,807	-	-	12,399,807
Balance at 31 December 2007	22,242,200	92,142	(3,020,529)	19,313,813
Balance at 1 January 2008	22,242,200	92,142	(3,020,529)	19,313,813
Profit for the period	-	-	3,411,658	3,411,658
Total recognised income and expense	22,242,200	92,142	391,129	22,725,471
Dividend payment	-	-	(1,933,788)	(1,933,788)
Recognition of share-based payments	-	55,000	-	55,000
Adjustment for tax on capitalised IPO cost	74,428	-	-	74,428
Issue of shares under share option plan	1,297,463	-	-	1,297,463
Balance at 31 December 2008	23,614,091	147,142	(1,542,659)	22,218,574

The attached notes form an integral part of these Statements of Changes in Equity.

For personal use only

**THINKSMART LIMITED**  
**CASH FLOW STATEMENTS**

**Cash Flow Statements**  
**For the Financial Year Ended 31 December 2008**

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		37,009,472	35,832,241	-	174,103
Payments to suppliers and employees		(31,947,826)	(30,888,194)	(293,441)	-
Interest received		161,787	173,126	24,191	32,050
Interest and other costs of finance paid		(646,931)	(214,502)	(85,022)	-
Income tax paid		(2,298,105)	-	(766,106)	-
Net cash from operating activities	24(b)	2,278,397	4,902,671	(1,120,378)	206,153
<b>Cash Flows from Investing Activities</b>					
Payments for plant and equipment		(1,209,852)	(136,556)	-	-
Payment for intangible assets		(1,379,907)	(456,063)	-	-
Payment for acquisition of RentSmart Limited		-	(7,882,851)	-	-
Acquisition of RentSmart Limited's cash balance		-	-	-	(113)
Net cash from (used in) investing activities		(2,589,760)	(8,475,470)	-	(113)
<b>Cash Flows from Financing Activities</b>					
Hire purchase and lease finance repaid		16,416	2,772	-	-
Borrowings to subsidiary		-	-	(632,357)	(7,733,466)
Proceeds from issue of shares		1,297,463	13,000,001	1,297,463	13,000,001
Payment of IPO costs		-	(4,946,950)	-	(4,946,613)
Proceeds of borrowings		2,459,304	-	2,459,304	-
Repayment of borrowings		(2,039,891)	(1,424,173)	-	-
Dividend paid		(1,933,788)	-	(1,933,788)	-
Net cash from (used in) financing activities		(200,497)	6,631,650	1,190,622	319,922
Net (decrease)/increase in cash and cash equivalents		(511,859)	3,058,851	70,244	525,962
Cash and cash equivalents at beginning of the financial year		5,059,230	2,000,378	525,961	-
Net cash and cash equivalents at the end of the financial year	24(a)	4,547,371	5,059,229	596,205	525,962

The attached notes form an integral part of these Cash Flow Statements

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

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**1. General Information**

ThinkSmart Limited (the “Company”) is a publicly listed company, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise of the Company and its subsidiaries that operate in Australia, United Kingdom, New Zealand, Spain, France, Italy and USA. The Group’s principal activity is to arrange finance for renting of equipment in Australia, New Zealand, Europe and USA.

**2. Basis of Preparation**

**Statement of compliance**

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

The financial statements were authorised for issue by the Directors on 20 February 2009.

**Basis of measurement**

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

**3. Significant Accounting Policies**

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

**a) Basis of Consolidation**

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those by other members of the Group. All intra-group balances, transactions, income and expenses are eliminated in full on consolidation.

**b) Business Combinations**

Acquisitions of subsidiaries and business are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of the exchange) of assets, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs attributable to the business combination. The acquiree’s identifiable assets liabilities and contingent liabilities that meet the conditions of recognition under AASB 3 ‘Business Combinations’ are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the company’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Any excess is measured in the profit and loss.

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

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**c) Cash and cash equivalents**

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

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

**d) Plant and equipment**

*Acquisition of Assets*

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

*Depreciation*

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

- Office furniture, fittings, equipment and computers	2.5 to 5 years
- Leasehold improvements	the lease term
- Self-funded rental assets	2.5 to 5 years
- Motor vehicles	5 years
- Leased computer equipment and software	2.5 to 5 years

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

*Gains and losses on disposal*

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

**e) Leased assets**

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

*Operating leases*

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

*Finance leases*

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

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

**f) Trade and other accounts payables**

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

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

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**g) Investments**

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

**h) Financial Assets**

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

*Effective interest method*

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

*Loans and receivables*

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

*Insurance prepayment*

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

**i) Impairment of assets**

*Financial assets*

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

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

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

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

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



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

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*Non-financial assets*

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

**j) Intangible Assets**

*Intellectual Property*

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

*Inertia Assets and Distribution Network Assets*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Intangible assets recognised are "inertia" and "distribution networks" acquired on the acquisition of RentSmart Limited on 1 December 2006.

Inertia Assets

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

Distribution Network Assets

Distribution networks represent the value attributable to the retailer network from which rental contracts are originated. The intangible asset is amortised on a straight line basis until the expected expiry of the contract, which is 4.5 years.

*Funding Agreements*

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

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

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*Software Development*

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

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

The intangible asset is amortised on a straight line basis over its estimated useful life, which is 4 years. Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

**k) Goodwill**

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

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

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

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

**l) Government grants**

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

**m) Employee Benefits**

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

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

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

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

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

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*Share –based payments*

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

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

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

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

**n) Inventories**

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

**o) Revenue Recognition**

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

*Funder Income*

Commissions receivable from funders is recognised at the time finance approval is given, adjusted for an allowance for loans not expected to proceed to a contract. A component of the income where material is deferred and recognised in line with the services provided. As at 31 December 2008 and 2007, this deferred revenue was not considered material.

*Unguaranteed Residual Interest in Equipment (inertia income)*

At the conclusion of the initial rental period the consolidated entity is entitled to acquire the equipment from the funders at a nominal value. All risks and rewards of ownership pass to the Group at that point and it has the option to either immediately dispose of the equipment or continue to rent the asset to third parties.

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

*Insurance Income*

Funder income includes commissions received on insurance policies issued by third party insurers to cover theft and damage of rental equipment. In UK this revenue does not form part of funder income and is recognised over the life of the rental contract. The revenue recognition policy for the Australian insurance income is consistent with the treatment of funder income.

**p) Financial Instruments**

*Non-derivative financial instruments*

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

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

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial asset at fair value through profit or loss

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

Other

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

*Share capital*

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

**q) Income tax**

*Current tax*

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

*Deferred tax*

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

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

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

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

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

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

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

*Current and deferred tax for the period*

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

*Tax consolidation*

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group during 2008. As a consequence, all members of the tax-consolidated group are taxed as a single entity from 1 January 2008. The head entity within the tax-consolidated group is ThinkSmart Ltd.

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

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

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

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

*Nature of tax funding arrangement and tax sharing agreement*

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

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

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Contributions to fund the current tax liabilities will be documented in the tax funding arrangement and reflect the timing of the Company's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with the other members of the tax-consolidated group, will also be required to enter into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations. No amounts will be recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**r) Goods and services tax**

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

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

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

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

**s) Foreign currency transactions**

*Functional and presentation currency*

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

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

*Transactions and balances*

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

*Group companies and foreign operations*

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

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

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

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

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

**t) Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

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

**u) Corporate Development costs**

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

**v) Provisions**

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

**w) Lease payments**

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

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

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

**x) Finance income and expenses**

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

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

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

**y) Segment reporting**

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

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

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

**z) Determination of fair value**

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

*Intangible assets*

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

*Investment in equity and debt securities*

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

*Trade and other receivables*

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

*Non-derivative financial liabilities*

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

*Share-based payment transactions*

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

*Financial guarantees*

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

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

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

- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 31 December 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Officer in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its geographical segments. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised 101 *Presentation of Financial Statements* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income



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(effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 31 December 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in single statement of comprehensive income for its 2009 consolidated financial statements.

- AASB 2008-7 Amendments to Accounting Standards – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The Group has not yet determined the potential effect of the amendment.

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**4. Critical accounting judgements and key sources of estimation uncertainty**

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

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

Except as described below, in preparing this consolidated financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2007.

**a) Critical judgements in applying the entity's accounting policies**

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

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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**5. Financial Risk Management**

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

Credit Risk

Credit risk refers to the risk that a counterparty or customer will default on its contractual obligations resulting in financial loss to the Group and arise principally from the Group's assessment of recoverability from debtors. The Group has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group has minimal concentrations of credit risk in relation to trade receivables. Credit risk arising from customer rental contracts are not borne by the Group but by the funding institutions. The day to day management of credit risk is undertaken by ensuring counterparties fall within specific risk criteria prepared by our financiers and the Board.

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

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

Guarantees

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

Liquidity risk

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

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

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### NOTES TO THE FINANCIAL STATEMENTS

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

- Secured bank overdraft facility of \$250,000. Interest would be payable at ANZ's reference rate plus a margin of 0.175%.
- Secured bill acceptance facility of \$5,000,000, in which \$2,500,000 was drawn down during 2008. Interest would be payable at prevailing bank rate.
- Other operational facilities are set out in note 24 (c).

#### Market risk

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

#### *Currency risk*

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

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

Liabilities incurred in each respective geographical territory are paid for by the cash flows of the functional currency of that territory. Exposures for singular transactions greater than \$50,000 are considered for hedging by management, with forward exchange contracts to mitigate exchange rate risk and are considered separately as they arise. The consolidated entity has no forward exchange contracts as at reporting date (2007: nil)

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

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

#### *Interest rate risk*

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

#### Capital management

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

The Board encourages employees to hold shares in the Company. At present employees hold 23.7% (2007: 14.8%) of ordinary shares. Currently management is discussing alternatives for extending the Group's share option programme beyond key management and other senior employees, which is anticipated to be implemented in 2009.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. Refer to note 22 for items comprising capital.

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	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>6. Profit</b>					
Profit is arrived at after crediting/(charging) the following items:					
<b>a) Revenue</b>					
Distribution income		-	-	3,300,000	1,500,000
Funder income		23,223,026	23,488,399	-	-
Revenue received on sale of equipment		4,479,536	3,420,294	-	-
Rental income		5,968,474	4,321,571	-	-
Insurance brokerage income		4,396,117	4,058,586	-	-
Government grant		-	149,000	-	-
Other revenue		831,360	916,414	-	-
		<u>38,898,513</u>	<u>36,354,265</u>	<u>3,300,000</u>	<u>1,500,000</u>
<b>b) Employee benefits expense</b>					
Payments to employees		11,973,216	9,571,770	-	-
Share options cost		55,000	54,709	-	-
Provision for employee entitlements		685,298	430,610	-	-
		<u>12,713,514</u>	<u>10,057,089</u>	-	-
<b>c) Depreciation expense</b>					
Depreciation of plant and equipment		216,853	165,732	-	-
Depreciation of leasehold improvements		22,847	138,715	-	-
Depreciation of self funded rentals		6,053	11,496	-	-
Depreciation of web sites		1,023	1,949	-	-
Depreciation of lease equipment & software		162,909	121,110	-	-
		<u>409,686</u>	<u>439,002</u>	-	-
<b>d) Amortisation expense</b>					
Amortisation of software		210,389	109,319	-	-
Amortisation of funding agreement		173,012	22,039	-	-
Amortisation of distribution network		131,082	142,928	-	-
Amortisation of inertia contracts		1,263,194	825,930	-	-
Amortisation of intellectual property		32,091	32,091	-	-
		<u>1,809,768</u>	<u>1,132,307</u>	-	-

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	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>6. Profit (cont.)</b>					
<b>e) Finance (costs)/benefits</b>					
Interest revenue – other entities		163,724	38,723	24,191	34,382
– related parties		-	29,405	1,759,365	-
Total finance benefits		163,724	68,128	1,783,556	34,382
Interest expense – other entities		(50,752)	(236,858)	(8,139)	-
– related parties		-	(285,055)	-	-
Total interest costs		(50,752)	(521,913)	(8,139)	-
Finance charges		(588,326)	(116,440)	(44,326)	(241)
Total finance benefit/(cost)		(475,354)	(570,225)	1,731,091	34,141
<b>f) Reversal of impairment/ (impairment costs)</b>					
Reversal of impairment/ (impairment) of intercompany receivable		-	-	-	5,259,676
		-	-	-	5,259,676
<b>g) Other Expenses</b>					
Loss on sale of property and equipment		26,845	-	-	-
Other expenses		2,231,892	3,326,225	51,057	22,411
		2,258,737	3,326,225	51,057	22,411
Other expenses comprise of other administrative expenses including postage, travel and training.					
<b>h) Listing cost</b>					
Listing cost		-	4,195,856	-	4,195,856
Costs comprising underwriting fees and other professional costs arising on the listing of the company's shares have been expensed. Costs directly attributable to the issue of new equity have been deducted from the capital raised.					
<b>i) Restructuring cost</b>					
Impairment of plant and equipment		40,278	-	-	-
Impairment of intangible assets		197,398	-	-	-
Other		178,508	-	-	-
		416,184	-	-	-

Restructuring costs relate to expenses incurred in exiting the USA market. Other restructuring costs mainly comprise redundancy costs.

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	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>7. Income Tax</b>				
The major components of income tax expense for the year ended 31 December are:				
<i>Current income tax</i>				
Current income tax charge	2,435,166	2,410,009	884,425	1,586,746
Adjustment for prior period	(711,493)	(30,025)	(711,493)	(141,028)
<i>Deferred income tax</i>				
Origination and reversal of temporary differences	248,940	(1,196,829)	675,564	(1,895,868)
Adjustment for prior period	398,260	-	398,260	-
Change in unrecognised temporary differences	119,313	-	-	-
Income tax expense/ (benefit) reported in income statement	2,490,186	1,183,155	1,246,757	(450,150)

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounting profit/(loss) before tax	5,700,938	1,921,221	4,658,415	2,447,501
At the statutory income tax rate of 30%	1,710,281	576,366	1,397,525	734,250
Effect of tax rates in foreign jurisdictions	(56,563)	27,740	-	-
Non deductible expenses:				
- corporate development	53,791	88,986	14,524	89,390
- impairment gain/(losses)	-	-	-	(1,577,903)
- listing cost	-	415,390	-	415,390
- other	(105,697)	154,760	69,790	29,751
Exempt income	-	-	(257,817)	-
Adjustment on entry into tax consolidation group	335,970	-	335,970	-
Overseas tax losses not recognised/ (recognised)	865,639	(50,062)	-	-
Adjustments in respect of prior periods	(313,235)	(30,025)	(313,235)	(141,028)
Income tax expense/(benefit) reported in the income statement	2,490,186	1,183,155	1,246,757	(450,150)
<b>Income tax recognised directly in equity</b>				
Listing cost	74,428	150,902	74,428	150,902

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

Deferred tax asset	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade debtors	-	37,478	-	-
Accruals	-	39,000	-	-
Tax losses	-	-	-	-
Corporate development cost	398,939	451,056	398,939	451,056
Sinking fund	-	802,768	-	802,756
Employee entitlements	159,434	143,857	159,434	181,335
Listing cost	890,451	795,415	890,451	795,415
Consulting cost	6,079	-	6,079	-
Plant & equipment	945,020	-	945,020	-
Other	59,864	35,131	30,188	39,000
<b>Total</b>	<b>2,459,787</b>	<b>2,304,705</b>	<b>2,430,110</b>	<b>2,269,562</b>

Deferred tax liability	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Prepayments	4,249	6,285	4,249	4,539
Deals awaiting settlement	35,470	46,632	35,470	46,632
Intangible assets	796,080	1,300,398	-	-
Government grant	19,993	40,230	-	-
Plant & equipment	1,190,494	-	1,190,494	-
ABL servicer fee	98,510	-	98,510	-
Other debtors	11,766	18,344	22,135	60,775
<b>Total</b>	<b>2,156,562</b>	<b>1,411,889</b>	<b>1,350,858</b>	<b>111,946</b>

Net deferred tax asset	965,568	2,037,291	1,079,252	2,157,616
Net deferred tax liability	662,343	1,144,475	-	-



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**Unrecognised deferred tax assets**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Deferred tax assets have not been recognised in respect of the following items:				
Tax losses	865,639	-	-	-
	<u>865,639</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**Tax Consolidation**

ThinkSmart Ltd and its 100% owned Australian resident subsidiaries have formed a tax consolidated group during the 2008 financial year.

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	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>8. Trade and other receivables</b>					
<u>Current</u>					
Trade receivables (i)		1,882,885	1,843,253	-	-
Allowance for doubtful debts		(258,615)	(265,704)	-	-
Sundry debtors		-	143,907	-	-
		<u>1,624,270</u>	<u>1,721,456</u>	<u>-</u>	<u>-</u>
<u>Non-current</u>					
Trade receivables (i)		210,384	-	-	-
		<u>210,384</u>	<u>-</u>	<u>-</u>	<u>-</u>
(i) No interest is charged on trade receivables. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.					
<b>9. Inventories</b>					
Promotional stock on hand		-	31,701	-	-
Rental asset inventory		65,520	31,732	-	-
		<u>65,520</u>	<u>63,433</u>	<u>-</u>	<u>-</u>
<b>10. Prepayment - current</b>					
Insurance prepayment	3(h)	3,037,015	2,638,579	-	-
Retailer marketing prepayment		714,226	670,651	-	-
Other prepayment		758,650	726,166	14,164	15,128
		<u>4,509,891</u>	<u>4,035,396</u>	<u>14,164</u>	<u>15,128</u>
<b>11. Other current assets</b>					
Deals awaiting settlement		118,233	155,441	-	-
Other		75,137	16,046	1,417	10,111
		<u>193,370</u>	<u>171,487</u>	<u>1,417</u>	<u>10,111</u>
<b>12. Prepayment – non current</b>					
Insurance prepayment	3(h)	3,648,041	2,346,693	-	-
		<u>3,648,041</u>	<u>2,346,693</u>	<u>-</u>	<u>-</u>

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**13. Plant & Equipment**

<b>Consolidated</b>	Plant & Equipment \$	Leasehold improvements \$	Self funded rentals \$	Web Sites \$	Lease equipment & software \$	Total \$
<b>Gross Carrying Amount</b>						
<b>Cost or deemed cost</b>						
Balance at 1 Jan 2007	1,122,639	520,487	149,958	76,450	1,854,354	3,723,888
Net foreign currency translation differences	(18,062)	(19,974)	-	-	-	(38,036)
Additions	33,347	11,800	-	-	91,409	136,556
Disposals	-	-	-	-	-	-
Balance at 31 Dec 2007	1,137,924	512,313	149,958	76,450	1,945,763	3,822,408
Additions	757,878	125,117	-	-	326,857	1,209,852
Disposals	-	(298,631)	-	-	-	(298,631)
Balance at 31 Dec 2008	1,895,802	338,799	149,958	76,450	2,272,620	4,733,629
<b>Accumulated Depreciation</b>						
Balance at 1 Jan 2007	(767,423)	(255,598)	(122,462)	(72,185)	(1,620,597)	(2,838,265)
Net foreign currency translation differences	5,145	4,490	-	-	-	9,634
Disposals	-	-	-	-	-	-
Depreciation expense	(165,732)	(138,715)	(11,496)	(1,949)	(121,111)	(439,003)
Balance at 31 Dec 2007	(928,011)	(389,823)	(133,958)	(74,134)	(1,741,708)	(3,267,634)
Effect of movement in exchange rate	(8,262)	-	-	-	(18,600)	(26,862)
Disposals	-	271,786	-	-	-	271,786
Depreciation expense	(216,853)	(22,847)	(6,053)	(1,023)	(162,909)	(409,686)
Impairment loss	-	-	-	-	(40,278)	(40,278)
Balance at 31 Dec 2008	(1,153,126)	(140,884)	(140,011)	(75,157)	(1,963,495)	(3,472,674)
<b>Net Book Value</b>						
At 31 Dec 2007	209,913	122,490	16,000	2,316	204,055	554,775
At 31 Dec 2008	742,676	197,915	9,947	1,293	309,125	1,260,955

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

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

		% of Equity		Consolidated		Company	
		2008	2007	2008	2007	2008	2007
				\$	\$	\$	\$
<b>14. Other Financial Assets</b>							
Interest in Subsidiaries	Country of Incorporation						
RentSmart Unit Trust	Australia	100%	100%	-	-	23,526	23,526
RentSmart Pty Ltd	Australia	100%	100%	-	-	109,720	54,720
RentSmart Limited	UK	100%	100%	-	-	-	-
SmartCheck Ltd	Australia	100%	100%	-	-	-	-
RentSmart Pty Ltd	New Zealand	100%	100%	-	-	-	-
RentSmart Pte Ltd	Singapore	100%	100%	-	-	-	-
ThinkSmart Europe Ltd	UK	100%	100%	-	-	-	-
ThinkSmart Financial Services Ltd	UK	100%	100%	-	-	-	-
SmartCheck Ltd	UK	100%	100%	-	-	-	-
ThinkSmart Insurance Administration Ltd	UK	100%	100%	-	-	-	-
SmartCheck Finance Spain SL(ii)	Spain	100%	100%	-	-	-	-
SmartPlan Spain SL	Spain	100%	100%	-	-	-	-
ThinkSmart France SARL	France	100%	100%	-	-	-	-
ThinkSmart Sweden AB	Sweden	100%	100%	-	-	-	-
ThinkSmart Italy Srl (i)	Italy	100%	100%	-	-	-	-
ThinkSmart Inc	USA	100%	100%	-	-	113	113
Investment in controlled entities				-	-	133,359	78,359
Loan to ThinkSmart Europe Ltd (ii)				-	-	8,493,800	7,733,466
Loan to RentSmart Unit Trust (ii)				-	-	12,805,950	10,354,947
Loan to RentSmart Ltd (iii)				-	-	2,480,385	-
				-	-	23,913,494	18,166,772

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

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

(ii) The receivables are unsecured, payable on demand and attract an interest rate of RBA rate plus a margin of 2.55% per annum (2007: nil percent).

(iii) The receivable is unsecured, payable on demand and attracts no interest (2007: nil percent).

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

	<b>Consolidated</b>					
	<b>Funding Agreements</b>	<b>Software</b>	<b>Distribution network</b>	<b>Intellectual Property</b>	<b>Inertia Contracts</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
<b>15. Intangible Assets</b>						
<b>Gross carrying amount</b>						
<b>At cost</b>						
Balance at 1 January 2007	-	482,358	667,637	641,816	4,732,977	6,524,788
Additions	393,979	456,063	-	-	-	850,041
Effect of movement in exchange rate	-	-	(54,779)	-	(388,786)	(443,565)
Balance at 31 December 2007	393,979	938,421	612,858	641,816	4,344,191	6,931,264
Additions	503,527	876,380	-	-	-	1,379,907
Effect of movement in exchange rate	-	-	(49,069)	-	(347,825)	(396,895)
Balance at 31 December 2008	897,506	1,814,801	563,789	641,816	3,996,366	7,914,277
<b>Accumulated amortisation and impairment</b>						
Balance at 1 January 2007	-	(45,928)	(38,011)	(208,592)	(98,604)	(391,135)
Amortisation expense	(22,039)	(109,319)	(142,928)	(32,091)	(825,930)	(1,132,307)
Effect of movement in exchange rate	-	-	33,401	-	47,039	80,439
Balance at 31 December 2007	(22,039)	(155,247)	(147,539)	(240,683)	(877,495)	(1,443,002)
Amortisation expense	(173,012)	(210,389)	(131,082)	(32,091)	(1,263,194)	(1,809,768)
Impairment loss	(197,398)	-	-	-	-	(197,398)
Effect of movement in exchange rate	(55,128)	-	17,608	-	126,095	88,571
Balance at 31 December 2008	(447,578)	(365,636)	(261,013)	(272,774)	(2,014,593)	(3,361,597)
<b>Net book value</b>						
At 31 December 2007	371,940	783,174	465,320	401,133	3,466,695	5,488,262
At 31 December 2008	449,928	1,449,165	302,775	369,042	1,981,772	4,552,680

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

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

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>16. Goodwill</b>					
Balance at beginning of financial year		5,284,678	5,955,823	-	-
Effect of movement in exchange rate		(423,127)	(671,145)	-	-
Balance at end of financial year		4,861,551	5,284,678	-	-

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

For the purpose of impairment testing, goodwill is allocated to the UK operations, RentSmart Limited and ThinkSmart Insurance and Administration Ltd, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The goodwill arose on the acquisition of RentSmart Limited.

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

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

- Cash flows were projected based on the forecast operating results for 2009, and conservative estimates of future growth at 2.5%.
- A pre tax discount rate of 17.9% was applied in determining the recoverable amount of the unit. The discount rate was based on the weighted average cost of capital (WACC) for the Group. The WACC is predominantly a factor of the cost of equity which has been set at 15% consistent with independent determinations of the Group's cost of equity.

**17. Assets Pledged as Security**

UK subsidiaries no longer have any assets pledged as security following the repayment of the term loan during 2008 (2007: \$8,067,446).

RentSmart Unit Trust and ThinkSmart Ltd have pledged all its present and future assets to ANZ as security for the used financing facilities ANZ has provided, as disclosed in note 24(c).

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

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>18. Trade and other payables</b>					
Trade and other payables (i)		3,448,588	3,270,443	42,229	5,213
Product plan		326,971	1,209,475	-	-
GST Payable		483,140	676,237	-	-
Provision for employee entitlement:					
Annual leave		325,342	304,909	-	-
Long service leave (ii)		192,638	171,321	-	-
Other		14,843	3,294	-	-
		<u>4,791,522</u>	<u>5,635,677</u>	<u>42,229</u>	<u>5,213</u>

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

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

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

The Company has guaranteed the lease, performance and bank loans of its subsidiaries. Under the terms of the financial guarantee contracts, the Company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when fall due. The Company does not expect the financial guarantees to be called on. Refer to note 28 for contingent liabilities which includes the parental guarantees provided to subsidiaries.

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

	Year of Maturity	2008 Face Value \$	2007 Face Value \$
Bank loan of a subsidiary	2008	-	2,039,891
IBM equipment lease	2009	85,696	-
Performance guarantee of a subsidiary	-	5,200,000	3,200,000
Fair value of guarantee	-	-	-

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

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

**19. Current Borrowings**

This note provides information about the contractual terms of the Company's and Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 30.

Term loans (ii)	2,459,304	2,039,891	2,459,304	-
Hire purchase and lease liabilities (i)	116,136	66,681	-	-
	<u>2,575,440</u>	<u>2,106,572</u>	<u>2,459,304</u>	<u>-</u>

- (i) The hire purchase and lease liabilities are secured by a charge over the respective assets (refer note 25).  
(ii) The \$2,459,304 fixed term loan relates to a \$2,500,000 180-day commercial bill denominated in Australian Dollar with a fixed interest of 4.04% pa. The loan is payable on the 25 May 2009.

In the prior year, a \$2,039,891 fixed term loan was denominated in Sterling and charged with interest in arrears at a margin of 2.5% over the Halifax Bank of Scotland base rate. The loan was secured over the assets of RentSmart Limited and was repaid in 2008. Refer to note 24(c) for security of the loan.

**20. Non- Current Borrowings**

Hire purchase and lease liabilities (i)	-	33,040	-	-
	<u>-</u>	<u>33,040</u>	<u>-</u>	<u>-</u>

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

- (i) The hire purchase and lease liabilities are secured by a charge over the respective assets (refer note 25).

**21. Other – non current payable**

Product Plan (i)	38,648	104,975	-	-
	<u>38,648</u>	<u>104,975</u>	<u>-</u>	<u>-</u>

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



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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>22. Issued Capital</b>				
<b>(a) Issued and Paid up Capital</b>				
96,689,390 Ordinary Shares fully paid (2007: 95,030,164)	23,614,091	22,242,200	23,614,091	22,242,200

In 2007, the board authorised the subdivision of the shares with the ratio of 1:4. Consequently, fully paid ordinary shares in the Company as at 31 December 2006 of 22,245,913 were converted to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO.

	Company 2008		Company 2007	
	Number	\$	Number	\$
<i>Fully Paid Ordinary Shares</i>				
Balance at beginning of the financial year	95,030,164	22,242,200	22,245,913	9,842,393
Restated opening balance as a result of share split in 2007	95,030,164	22,242,200	88,983,652	9,842,393
Issue of new shares following exercise of options	1,659,226	1,297,463	-	-
Adjustment for tax on capitalised IPO cost	-	74,428		
Issue of new shares in ThinkSmart Ltd	-	-	6,046,512	12,399,807
Balance at end of the financial year	96,689,390	23,614,391	95,030,164	22,242,200

During the year, a total of 1,659,226 employee share options were exercised for total proceeds of \$1,297,463 (2007: nil).

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

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

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

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

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

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

**(b) Share Options – Employee Options**

In 2007, the board made a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split (1:4) was to ensure an appropriate capital structure at the time of the IPO. Consequently, the options were split in accordance with the share split.

The following options were issued over ordinary fully paid shares:

After the 1:4 share split

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

Before the share split

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

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

The Company has an ownership-based compensation scheme for executives and senior employees. Each employee share option converts to one ordinary share of ThinkSmart Limited on exercise and payment of the exercise price. The options carry neither rights or dividends nor voting rights. Options may be exercised at any time within the specified exercise period to the date of their expiry.

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

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

**(b) Share Options – Employee Options**

There are no options issued in 2008. Below are options that were issued in 2007:

<b>Options series issued in 2007</b>	<b>Number</b>	<b>Grant date</b>	<b>Vesting date</b>	<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Fair value at grant date</b>
<u>After the split</u>						
(1) Employee options	640,000	17/04/2007	1/01/2009	31/12/2011	\$1.38	\$0.03
(2) Employee options	720,000	17/04/2007	1/01/2009	31/12/2011	\$3.00	\$0.004
<u>Before the split</u>						
(1) Employee options	160,000	17/04/2007	1/01/2009	31/12/2011	\$5.50	\$0.12
(2) Employee options	180,000	17/04/2007	1/01/2009	31/12/2011	\$12.00	\$0.016

The weighted average fair value of the share options granted in 2007 is \$0.0162. Options were priced using a binomial option pricing model. Where relevant, the expected useful life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option, where applicable), and behavioural considerations. Expected volatility is based on that observed for comparable listed companies over the time period appropriate to the option grant in question.

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

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

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

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

**(b) Share Options – Employee Options**

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

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	10,120,000	\$1.27	2,260,000	\$4.40
Restated opening balance as a result of share split	10,120,000	\$1.27	9,040,000	\$1.10
Granted during the financial year	-	-	1,360,000	\$2.24
Forfeited during the financial year	-	-	(280,000)	\$0.63
Exercised during the financial year	(1,659,226)	\$0.78	-	-
Expired during the financial year	(3,274,107)	\$1.13	-	-
Balance at the end of financial year	5,186,667	\$1.52	10,120,000	\$1.27
Exercisable at end of the financial year	1,773,334	\$1.22	4,000,000	\$1.13

The options outstanding at 31 December 2008 have an exercise price in the range of \$0.6250 to \$3.00 and a weighted average contractual life of 1.81 years.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2008 was \$1.39 (2007: nil as no options were exercised).

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

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Share options granted in 2006 – equity settled	43,240	44,389	-	-
Share option granted in 2007 – equity settled	11,760	10,320	-	-
Total expense recognised as employee costs	55,000	54,709	-	-

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

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

**(c) Dividends**

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount	Franked/unfranked	Date of payment
<b>2008</b>				
Interim 2008 ordinary	2	1,933,788	40% franked	13 October 2008

**2007**

No dividend was declared in 2007.

Franked dividend declared or paid during the year was 40% franked at the tax rate of 30%.

After 31 December 2008, the following dividends were proposed by the directors for 2008. The dividends have not been provided for. The declaration and subsequent payment of dividends has no income tax consequences.

	Cents per share	Total amount	Franked/unfranked	Date of payment
Final ordinary 2008	1.5	\$1,450,341	100% franked	14 April 2009

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2008, and will be recognised in subsequent financial reports.

**(d) Franking credits**

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Franking credit account balance as at the end of the financial year at a tax rate of 30% (2007: 30%)	-	-	-	-
Franking credits from the payment of income tax paid and payable as at the end of the financial year	766,106	-	766,106	-
Franking debits from the payment of dividends in the financial year	(331,506)	-	(331,506)	-
Franking credits available for subsequent financial years based on a tax rate of 30% (2007: 30%)	434,600	-	434,600	-

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$621,575 (2007: nil). A tax instalment will be paid in March 2009 which will provide sufficient franking credit for the payment of fully franked dividend on 14 April 2009. 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 2008, the subsidiaries have no franking credits for the benefit for the Company (2007: nil).

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>23. Reserves</b>				
Equity settled employee benefits reserve (i)	147,142	92,142	147,142	92,142
Foreign currency translation reserve (ii)	(1,968,454)	(563,299)	-	-
	<u>(1,821,312)</u>	<u>(471,157)</u>	<u>147,142</u>	<u>92,142</u>

- (i) The share-based compensation reserve arises on the grant of share options to executives under the employee share option plan. Amounts are transferred out of the reserves and into issued capital when the options are exercised. Further information about the share-based payments is made in note 22(b) to the financial statements.
- (ii) The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**24. Notes to the Cash Flow Statement**

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

**Reconciliation of cash and cash equivalents**

Cash balance comprises:

- cash and cash equivalents	4,547,371	5,059,229	596,205	525,962
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The Group's exposure to interest rate and sensitivity analysis of the financial assets and liabilities are discussed in note 30.

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

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(b) Reconciliation of the profit /(loss) for the year to net cash flows from operating activities:</b>				
Profit after tax	3,210,752	738,066	3,411,658	2,897,651
Depreciation	409,686	439,003	-	-
Amortisation	1,809,768	1,132,307	-	-
Loss on disposal of plant and equipment	26,845	-	-	-
Impairment costs	237,676	-	-	-
Provision for doubtful debts	233,259	265,704	-	-
Provision for employee entitlements	53,300	130,296	-	-
Equity settled share based payment	55,000	54,708	-	-
Distribution income	-	-	(3,300,000)	(1,500,000)
IPO cost recognised as financing activity	-	4,195,856	-	4,195,856
Unrealised foreign exchange (gain)/loss	-	91,671	-	-
Reversal of impairment	-	-	-	(5,259,676)
<b>(Increase) / decrease in assets:</b>				
Trade receivables	(562,073)	(787,728)	8,697	(10,114)
Prepayments	(1,991,457)	(2,255,914)	965	(15,128)
Deferred tax asset	1,146,153	(935,579)	1,152,792	(2,118,662)
Other assets	(237,497)	(123,576)	(1,759,365)	342,512
Rental asset inventory	(2,087)	(36,248)	-	-
<b>Increase / (decrease) in liabilities:</b>				
Trade and other creditors	(897,455)	221,743	37,016	5,202
Provision for income tax	(665,013)	2,070,123	(672,140)	1,556,566
Deferred tax liability	(482,132)	(231,069)	-	111,946
Other payable	(66,328)	(66,692)	-	-
Net cash from/(used in) operating activities	2,278,397	4,902,671	(1,120,378)	206,153

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

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

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>(c) Financing facilities</b>				
Secured bank overdraft facility reviewed annually and payable at call:				
- amount used	-	-	-	-
- amount unused	250,000	1,383,273	250,000	-
	<u>250,000</u>	<u>1,383,273</u>	<u>250,000</u>	<u>-</u>
Hire purchase and/or leasing facilities:				
- amount used	116,136	99,720	-	-
- amount unused	10,000	242,098	-	-
	<u>126,136</u>	<u>341,818</u>	<u>-</u>	<u>-</u>
Secured bill acceptance facility:				
- amount used	2,500,000	-	2,500,000	-
- amount unused	2,500,000	950,000	2,500,000	-
	<u>5,000,000</u>	<u>950,000</u>	<u>5,000,000</u>	<u>-</u>
Interest rate swap facility:				
- amount used	-	-	-	-
- amount unused	-	200,000	-	-
	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Other finance facilities (business credit card, payroll facility, term loan, multi-option facility):				
- amount used	86,000	2,131,891	-	-
- amount unused	6,259,000	853,000	500,000	-
	<u>6,345,000</u>	<u>2,984,891</u>	<u>500,000</u>	<u>-</u>
<b>Total Financing Facility</b>	<u>11,721,136</u>	<u>5,859,982</u>	<u>5,750,000</u>	<u>-</u>

The total financing facility of \$11,721,136 (2007: \$5,859,982) identified above is reviewed annually and secured over the assets of the group.

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

The consolidated entity entered into no non-cash finance transactions during the period (2007: Nil).

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**NOTES TO THE FINANCIAL STATEMENTS**

**25. Leases and Hire Purchase Obligations**

**Finance Leases – Leasing Arrangements**

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

	Note	Consolidated		
		Future minimum lease payments	Interest \$	Present value of minimum lease payments \$
<b>Finance lease liabilities</b>		\$		
<b><u>31 December 2008</u></b>				
No later than 1 year		119,836	3,700	116,136
		<u>119,836</u>	<u>3,700</u>	<u>116,136</u>
<b><u>31 December 2007</u></b>				
No later than 1 year		74,185	7,504	66,681
Later than 1 year and not later than 5 years		37,060	4,021	33,039
		<u>111,245</u>	<u>11,525</u>	<u>99,720</u>

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

The Company has no finance lease liabilities.

**Operating Leases – Leasing Arrangements**

Operating leases relate to office facilities with lease terms of between 1 and 6 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Non-cancellable operating lease payments:				
No later than 1 year	816,380	771,353	-	-
Later than 1 year and not later than 5 years	3,563,997	4,059,887	-	-
	<u>4,380,377</u>	<u>4,831,240</u>	<u>-</u>	<u>-</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS**

**26. Segment Information**

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

Primary Segment Reporting Geographical segments	Europe		Australasia		USA		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Total external revenues	20,157,084	20,108,230	18,648,361	16,246,035	93,069	-	-	-	38,898,513	36,354,265
Intersegment revenue	-	-	2,615,158	48,311	-	-	(2,615,158)	(48,311)	-	-
Total segment revenue	20,157,084	20,108,230	21,263,519	16,294,346	93,069	-	(2,615,158)	(48,311)	38,898,513	36,354,265
Segment results before restructuring costs	4,899,901	4,802,664	7,189,225	8,648,903	(2,076,868)	-	(2,023,938)	(5,307,827)	7,988,320	8,143,740
Restructuring costs	-	-	-	-	(416,184)	-	-	-	(416,184)	-
Segment results	4,899,901	4,802,664	7,189,225	8,648,903	(2,493,053)	-	(2,023,938)	(5,307,827)	7,572,135	8,143,740
Unallocated expenses	-	-	-	-	-	-	-	-	(1,871,197)	(2,026,663)
Capital raising cost	-	-	-	-	-	-	-	-	5,700,938	6,117,077
Income tax expense	-	-	-	-	-	-	-	-	-	(4,195,856)
Profit for the period	-	-	-	-	-	-	-	-	(2,490,186)	(1,183,155)
									3,210,752	738,066
Segment assets	17,532,962	17,617,608	8,480,497	6,478,407	61,110	-	-	-	26,074,569	24,096,015
Unallocated assets	-	-	-	-	-	-	-	-	365,032	2,666,685
Total assets									26,439,601	26,762,700
Segment liabilities	4,217,258	6,159,946	5,070,402	1,227,993	245,857	-	-	-	9,533,517	7,387,939
Unallocated liabilities	-	-	-	-	-	-	-	-	-	3,767,377
Total liabilities									9,533,517	11,155,316
Capital expenditure	836,511	41,140	271,621	95,417	101,721	-	-	-	1,209,852	136,557
Depreciation	208,565	263,605	158,734	175,397	42,387	-	-	-	409,686	439,002
Amortisation of intangible assets	1,394,276	968,858	373,737	163,448	41,755	-	-	-	1,809,768	1,132,307
Impairment losses on intangible assets and PPE	-	-	-	-	237,676	-	-	-	237,676	-

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

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**NOTES TO THE FINANCIAL STATEMENTS**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>27. Remuneration of auditors</b>				
<b>Audit services:</b>				
<i>Auditors of the Company:</i>				
Audit and review of financial reports (Australia)	276,312	195,189	146,728	56,469
Audit and review of financial reports (Overseas)	102,312	80,462	-	-
	<u>378,624</u>	<u>275,651</u>	<u>146,728</u>	<u>56,469</u>
<b>Services other than statutory audit:</b>				
<i>Other assurance services</i>				
Tax	77,385	18,132	34,150	-
Investigating Accountants Report for IPO (Australia)	-	577,402	-	577,402
Other services	-	3,527	-	1,425
	<u>77,385</u>	<u>599,061</u>	<u>34,150</u>	<u>578,827</u>

The Group's auditors are KPMG in 2008 and 2007.

**28. Commitments and Contingent Liabilities**

The parent Company has provided guarantees to its subsidiaries, which are contingent liabilities. Refer to note 18 for the guarantees provided.

**29. Contingent Inertia Assets**

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

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

A conservative estimate of its realisable value has been made by estimating expected sales proceeds through the least profitable sales channel and public auction. The after-tax cash flows, calculated from rental contracts in existence at 31 December 2008, are discounted using appropriate risk factors. The estimated value of future cash flows is \$10,932,373 (2007: \$10,047,975), representing the discounted after tax value of assets as determined by reference to auction sales history.

At 1 December 2006, the Group acquired RentSmart Limited. Inertia income of \$4,803,652 was recognised as an intangible asset as part of the business combination. At 31 December 2008, this asset is carried at amortised cost of \$1,981,772. This inertia intangible is not included in the contingent asset disclosed above.

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

**30. Financial Instruments**

**30 (a) Interest rate risk**

Profile

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

	Note	Consolidated		Company	
		Carrying amount		Carrying amount	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>Fixed rate instruments</b>					
Cash and cash equivalent		-	1,086,778	-	-
Financial asset		-	1,086,778	-	-
Term loan		2,459,304	-	2,459,304	-
Hire purchase and finance lease liability		116,136	99,720	-	-
Financial liability		2,575,440	99,720	2,459,304	-
<b>Variable rate instruments</b>					
Cash and cash equivalent		4,547,371	3,972,451	596,205	525,962
Financial asset		4,547,371	3,972,451	596,205	525,962
Term loan		-	2,039,891	-	-
Financial liability		-	2,039,891	-	-

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

**30 (a) Interest rate risk**

Sensitivity analysis

*Fixed rate instruments*

The Group has drawn a \$2,500,000 180-day commercial bill payable on 25 May 2009 at a fixed rate of 4.04% per annum (2007: nil).

*Variable rate instruments*

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

A change in 1% in interest rates would have increased or decreased the Group's profit by \$196,303 (2007: \$10,871) and the Company's profit by \$179,471 (2007: \$1,787).

**30 (b) Fair value of financial instruments**

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

**30 (c) Credit risk management**

Exposure to credit risk

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

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Cash and cash equivalent		4,547,371	5,059,229	596,205	525,962
Trade receivables (current)	8	1,882,885	1,843,253	-	-
Trade receivables (non-current)	8	210,384	-	-	-
Sundry debtors	8	-	143,907	-	-
Deals awaiting settlement	11	118,233	155,441	-	-
Prepayment (current)	10	4,509,891	4,035,396	14,164	15,128
Prepayment (non-current)	12	3,648,041	2,346,693	-	-
Loan receivables from related parties	14	-	-	23,913,494	18,166,772
		14,916,805	13,583,919	24,523,863	18,707,862

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 (c) Credit risk management**

Impairment losses

None of the Company's receivables are past due (2007: nil).

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

	<b>Gross 2008 \$</b>	<b>Impairment 2008 \$</b>	<b>Gross 2007 \$</b>	<b>Impairment 2007 \$</b>
Not past due	1,131,155	-	1,086,982	-
Past due 0-30 days	404,643	107,575	153,857	42,074
Past due 31-120 days	313,964	63,899	238,606	98,704
Past due 120-365 days	140,477	87,140	289,522	52,464
More than 1 year	103,030	-	74,287	72,463
	<u>2,093,269</u>	<u>258,615</u>	<u>1,843,253</u>	<u>265,704</u>

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

	<b>2008 \$</b>	<b>2007 \$</b>
Balance at 1 January	265,704	-
Impairment loss recognised	258,616	265,704
Write back for the year	(21,839)	-
Bad debt written off	(232,596)	-
Effect of exchange rate	(11,270)	-
Balance at 31 December	<u>258,615</u>	<u>265,704</u>

Trade receivables are reviewed and considered for impairment on a periodical basis, based on the number of days outstanding and number of payments in arrears. 66% (2007:74%) of the balance, which includes amounts owed by the Company's most significant customer, relates to customers that have a good credit history with the Company.

In 2008, 82% (2007: 78%) of the total prepayment relates to RentSmart Limited's upfront insurance premiums payment to Allianz on behalf of the rental customer. The premiums are recovered from the customer on a monthly basis. In the event the customer defaults, the policy is cancelled and Allianz refunds the unexpired premium.

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

**30 (d)**

**Currency risk management**

Exposure to currency risk

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

In AUD	31 December 2008			
	GBP	EUR	NZD	USD
Cash and cash equivalent	1,567,454	239,583	102,122	53,994
Trade and other receivables	378,717	110,251	198,402	-
Trade and other payables	(2,432,023)	(415,987)	(92,959)	(245,857)
Gross exposure	(485,852)	(66,153)	207,565	(191,863)

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

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

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
EUR	0.5772	0.6113	0.4919	0.5980
GBP	0.4584	0.4204	0.4796	0.4412
USD	0.8525	-	0.6928	-

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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 2007:

	Consolidated		Company	
	Equity \$	Profit or loss \$	Equity \$	Profit or loss \$
<b>31 December 2008</b>				
EUR	(35,938)	(40,969)	-	-
GBP	(1,210,519)	(271,569)	-	-
USD	16,795	221,783	-	-
<b>31 December 2007</b>				
EUR	(10,128)	(42,605)	-	-
GBP	(154,241)	(403,252)	-	-
USD	-	-	-	-

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

**30 (e) Liquidity risk management**

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

Consolidated	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
<b>31 December 2008</b>					
Trade and other payables	4,258,699	(4,258,699)	(4,258,699)	-	-
Term loans	2,459,304	(2,500,000)	(2,500,000)	-	-
Hire purchase and lease liabilities	116,136	(119,836)	(119,836)	-	-
Product plan (non-current)	38,648	(38,648)	-	(38,648)	-
	6,872,787	(6,917,183)	(6,878,535)	(38,648)	-
<b>31 December 2007</b>					
Trade and other payables	5,156,154	(5,156,154)	(5,156,154)	-	-
Term loans	2,039,891	(2,039,891)	(2,039,891)	-	-
Hire purchase and lease liabilities	99,720	(99,720)	(66,681)	(28,558)	(4,481)
Product plan (non-current)	104,976	(104,976)	-	(104,976)	-
	7,400,741	(7,400,741)	(7,262,726)	(133,534)	(4,481)



**THINKSMART LIMITED**  
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Company	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
<b>31 December 2008</b>					
Trade and other payables	42,229	(42,229)	(42,229)	-	-
Term loans	2,459,304	(2,500,000)	(2,500,000)	-	-
	2,501,533	(2,542,229)	(2,542,229)	-	-

**31 December 2007**

Trade and other payables	5,213	(5,213)	(5,213)	-	-
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**31 Related party disclosures**

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

**Non-Executive Directors**

P Mansell (Chairman)

S Penglis

D Griffiths

C McDonald - resigned on 11 April 2007

**Executive Directors**

N Montarello (Managing Director and Chief Executive Officer)

**Executives**

N Barker (Group Chief Financial Officer, ThinkSmart Ltd)

S McDonagh (Executive General Manager, RentSmart Unit Trust) – Appointed on the 10 July 2008

M Radotic (Managing Director - Continental Europe, ThinkSmart Europe Ltd)

G Varma (Group Chief Information Officer, ThinkSmart Ltd)

G Parry (Managing Director - UK, RentSmart Limited)

J Rozenbroek (Group Commercial Director, ThinkSmart Europe Ltd)

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

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	2,231,883	1,972,733	-	-
Post-employment benefits	165,462	147,659	-	-
Other long-term employee benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	34,541	34,367	-	-
	2,431,886	2,154,758	-	-

The KMP receive no compensation in relation to management of the Company (2007: nil). The compensation disclosed above represents an allocation of the KMP’s estimated compensation from the Group in relation to their services rendered by the Company.

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**Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' report.

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

**Loans to KMP and their related parties**

There has been no loan provided to KMP and their related parties as at 31 December 2008 (2007: nil).

**Other KMP transactions**

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

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**31 Related party disclosures (cont)**

**Options and rights over equity instruments**

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

Employee Options

	Held at 1 January 2008	Granted as compensation	Exercised	Lapsed	Held at 31 December 2008	Vested during the year	Vested and exercisable at 31 December 2008
<b>Directors</b>							
P Mansell	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
D Griffiths	-	-	-	-	-	-	-
N Montarello	6,800,000	-	(805,893)	(3,194,107)	2,800,000	1,400,000	1,400,000
<b>Executives</b>							
N Barker	560,000	-	-	-	560,000	280,000	280,000
S McDonagh	-	-	-	-	-	-	-
M Radotic	280,000	-	-	-	280,000	-	-
G Varma	560,000	-	(373,333)	-	186,667	560,000	186,667
G Parry	280,000	-	-	-	280,000	-	-
J Rozenbroek	280,000	-	-	-	280,000	-	-

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

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\* In 2007, the board passed a resolution and authorised the subdivision of the shares from 22,245,913 fully paid ordinary shares in the Company to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO. Consequently, the options are split in accordance to the share split. Refer to note 22(b) for further explanation.

No options were held by key management person related parties.

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**Movement in shares**

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

<b>2008</b>	<b>Held at 1 January 2008</b>	<b>Purchases</b>	<b>Sales</b>	<b>Received on exercise of options</b>	<b>Held at 31 December 2008*</b>
<b>Directors</b>					
P Mansell	1,288,192	11,808	-	-	1,300,000
S Penglis	1,360,500	250,000	-	-	1,610,500
D Griffiths	1,463,360	150,000	-	-	1,613,360
N Montarello	13,742,732	2,704,567	-	805,893	17,253,192
<b>Executives</b>					
N Barker	22,999	150,000	-	-	172,999
S McDonagh	-	51,000	-	-	51,000
M Radotic	35,000	-	-	-	35,000
G Varma	25,000	-	-	373,333	398,333
G Parry	25,357	-	-	-	25,357
J Rozenbroek	26,400	-	-	-	26,400
<b>2007</b>					
<b><u>After share split</u></b>	<b>Held at 10 July 2007</b>	<b>Purchases</b>	<b>Sales</b>	<b>Received on exercise of options</b>	<b>Held at 31 December 2007*</b>
<b>Directors</b>					
P Mansell	1,288,192	-	-	-	1,288,192
S Penglis	1,360,500	-	-	-	1,360,500
D Griffiths	1,951,148	-	487,788	-	1,463,360
N Montarello	34,742,732	-	21,000,000	-	13,742,732
C MacDonald	-	-	-	-	-
<b>Executives</b>					
N Barker	-	22,999	-	-	22,999
M Radotic	-	35,000	-	-	35,000
G Varma	-	25,000	-	-	25,000
G Parry	-	25,357	-	-	25,357
J Rozenbroek	-	26,400	-	-	26,400
<b><u>Before share split</u></b>					
	<b>Held at 1 January 2007</b>	<b>Purchases</b>	<b>Sales</b>	<b>Received on exercise of options</b>	<b>Held at 9 July 2007</b>
<b>Directors</b>					
P Mansell	533,810	250,000	461,762	-	322,048
S Penglis	578,500	11,625	250,000	-	340,125
D Griffiths	487,787	-	-	-	487,787
N Montarello	8,685,683	-	-	-	8,685,683
C MacDonald	-	-	-	-	-

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

	<b>Held at 31 December 2008</b>
<b>Directors</b>	
P Mansell	1,000,000
S Penglis	657,000
D Griffiths	975,572
N Montarello	13,742,732

No shares were granted to key management personnel during the reporting period as compensation in 2008 or 2007.

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

**Parent**

The parent entity of the Group is ThinkSmart Limited.

**Subsidiaries**

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

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

	<b>Company</b>	
	<b>2008</b>	<b>2007</b>
	\$	\$
Investments in controlled entities	133,359	78,359
Amount owed by ThinkSmart Europe Ltd (i)	8,493,800	7,733,466
Amount owed by RentSmart Unit Trust (i)	12,805,950	9,854,946
Amount owed by RentSmart Ltd (ii)	2,480,385	-
	23,913,494	17,666,771

(i) Amounts receivable by the parent entity from and to subsidiaries are unsecured, repayable on demand in cash and at an interest rate of RBA rate plus a margin of 2.55% per annum. The amount of interest revenue recognised from subsidiaries is \$1,759,365 for the year ended 31 December 2008.

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

The receivable from ThinkSmart Europe Ltd relates to funding for the acquisition of the remaining interest of RentSmart Ltd in UK in 2006. The receivable from RentSmart Unit Trust relates to the funding to repay external borrowings. The receivable from RentSmart Ltd relates to the funding of the US operation during the year.

**Other related parties**

***KMP related parties***

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

**32 Subsequent events**

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

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

**33 Earnings per share**

	<b>2008</b>	<b>2007</b>
	<b>Cents per share</b>	<b>Cents per share</b>
<b>Basic earnings per share</b>		
From continuing operations	3.34	0.80
From continuing operations before listing cost	3.34	4.42
<b>Diluted earnings per share</b>		
From continuing operations	3.22	0.73
From continuing operations before listing cost	3.22	4.02

**Basic earnings per share**

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Profit after tax from continuing operations	3,210,752	738,066
Earnings used in the calculation of basic EPS from continuing operations	3,210,752	738,066
Tax effected listing cost	-	3,352,489
Earnings used in the calculation of basic EPS from continuing operations before listing cost	3,210,752	4,090,555
	<b>2008</b>	<b>2007</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	96,028,963	92,472,024

**Diluted earnings per share**

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Profit after tax from continuing operations	3,210,752	738,066
Earnings used in the calculation of diluted EPS from continuing operations	3,210,752	738,066
Tax effected listing cost	-	3,352,489
Earnings used in the calculation of basic EPS from continuing operations before listing cost	3,210,752	4,090,555
	<b>2008</b>	<b>2007</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of diluted earnings per share are as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	96,028,963	92,472,024
Shares deemed to be issued for no consideration in respect of:		
Employee options	3,635,142	9,237,473
Weighted average number of ordinary shares used in the calculation of diluted EPS	99,664,105	101,709,497

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## **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 balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

#### *Auditor's responsibility*

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

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

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

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

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*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 ThinkSmart Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

**Report on the remuneration report**

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 31 December 2008. 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 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

D P McComish  
*Partner*

Perth

Dated: 20 February 2009

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