

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. THIS DOCUMENT DOES NOT CONSTITUTE AN INVITATION, OFFER OR SOLICITATION TO BUY ORDINARY SHARES.** If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser who is duly authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA").

This document does not constitute an invitation, offer or solicitation to buy Ordinary Shares nor will any Ordinary Shares be offered or sold to any person or entity in any country, state or other jurisdiction in which such invitation, offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

This document, which is drawn up as an admission document in accordance with the AIM Rules for Companies published by London Stock Exchange plc ("AIM Rules"), has been issued in connection with the application for admission to trading on AIM of the entire issued ordinary share capital of the Company. This document does not constitute an offer to the public requiring an approved prospectus under section 85 of FSMA and, accordingly, this document does not constitute a prospectus for the purposes of FSMA and the Prospectus Rules and has not been pre-approved by the Financial Conduct Authority ("FCA") pursuant to section 85 of FSMA.

Application has been made for the entire issued ordinary share capital of the Company to be admitted to trading on AIM, a market operated by London Stock Exchange plc. It is expected that Admission will become effective, and dealings in the Ordinary Shares will commence, on 2 December 2016. As at the date of this document, the Ordinary Shares are trading on the Australian Securities Exchange (the "ASX"). With effect from Admission, trading in the Company's Ordinary Shares will be suspended on the ASX and, shortly afterwards, the Company will be formally removed from the official list of the ASX.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required, pursuant to the AIM Rules, to have a nominated adviser. The nominated adviser is required to make a declaration to London Stock Exchange plc on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. London Stock Exchange plc has not itself examined or approved the contents of this document.**

The Directors, whose names appear on page 7 of this document, and the Company accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Prospective investors should read the whole text of this document and should be aware that an investment in the Company is speculative and involves a significant degree of risk. Prospective investors should carefully consider the section entitled "Risk Factors" set out in part 2 of this document.**



### ThinkSmart Limited

(Incorporated with limited liability in Australia with company number ACN 092 319 698)

### Admission to trading on AIM Nominated Adviser, Broker and Financial Adviser

**CANACCORD** Genuity

#### Entire Issued Share Capital immediately following Admission

Number  
105,478,744

Canaccord Genuity Limited ("Canaccord Genuity"), which is authorised and regulated in the United Kingdom by the FCA, is acting as nominated adviser to the Company in connection with the Introduction and Admission and will not be acting for any other person (including a recipient of this document) or otherwise be responsible to any person for providing the protections afforded to clients of Canaccord Genuity or for advising any other person in respect of the Introduction and Admission or any transaction, matter or arrangement referred to in this document. Its responsibilities as the Company's nominated adviser under the AIM Rules for Nominated Advisers are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his reliance on any part of this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on Canaccord Genuity by FSMA or the regulatory regime established thereunder, Canaccord Genuity does not accept any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Introduction or the Admission. Canaccord Genuity accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement.

## IMPORTANT INFORMATION

### Investment risk

Investment in the Company carries risk. There can be no assurance that the Group's strategy will be achieved and investment results may vary substantially over time. Investment in the Company is not intended to be a complete investment programme for any investor. The price of Ordinary Shares and any income from Ordinary Shares can go down as well as up and investors may not realise the value of their initial investment. Investors should carefully consider whether an investment in Ordinary Shares is suitable for them in light of their circumstances and financial resources and should be able and willing to withstand the loss of their entire investment (see part 2 (Risk Factors) of this document).

Investors should note that the rights of shareholders in a company incorporated in Australia may be different from the rights of shareholders in a UK incorporated company. Investors should refer to the Constitution of the Company (which is summarised in section 6, part 4 of this document).

Investors contemplating an investment in Ordinary Shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the Group. No assurance is given, express or implied, that Shareholders will receive back the amount of their investment in Ordinary Shares.

If you are in any doubt about the contents of this document you should consult your stockbroker or your financial, legal, tax or other professional advisers.

Investment in the Company is suitable only for financially sophisticated individuals and institutional investors who have taken appropriate professional advice, who understand and are capable of assuming the risks of an investment in the Company and who have sufficient resources to bear any losses which may result therefrom.

No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors or Canaccord Genuity. Without prejudice to the Company's obligations under the AIM Rules, the delivery of this document shall not create any implication that there has been no change in the business or affairs of the Company since the date of this document. Canaccord Genuity has not authorised the contents of this document and, without limiting the statutory rights of any person, no representation or warranty, express or implied, is made by Canaccord Genuity as to the contents of this document and no responsibility or liability whatsoever is accepted by Canaccord Genuity for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document, for which the Company and the Directors are solely responsible.

This document should not be treated as legal, taxation, investment or any other advice. Investors should inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Ordinary Shares that they might encounter; and (c) the income and other tax consequences that may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Ordinary Shares. Investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Statements made in this document are based on the laws and practices currently in force in England and Wales and Australia and are subject to changes therein.

This document should be read in its entirety.

### Forward looking statements

Certain statements contained herein are forward looking statements and are based on current expectations, estimates, targets and projections about the potential returns of the Company and industry and markets in which the Group operates, the Directors' beliefs and assumptions made by the Directors. Words such as "expects", "anticipates", "may", "should", "will", "intends", "plans", "believes", "targets", "seeks", "estimates", "aims", "projects", "pipeline" and variations of such words and similar expressions are intended to identify such forward looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties, outcomes of negotiations and

due diligence and assumptions that are difficult to predict, qualify or quantify. These statements should also not be taken as an implied forecast of the achievable profit of the Group. Therefore, actual outcomes and results may differ materially from what is expressed in such forward looking statements or expectations. Among the factors that could cause actual results to differ materially are: the general economic climate, competition, interest rate levels, loss of key personnel, the result of legal and commercial due diligence, the availability of financing on acceptable terms and changes in the legal or regulatory environment. Particular attention is drawn to the risk factors section in part 2 of this document, which set out a more complete discussion of the factors that could affect the Company's future performance and the industry in which it operates.

Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in the Company's expectations with regard thereto, any new information or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by law or any appropriate regulatory authority (including under the AIM Rules).

### **Presentation of financial information and other data**

The Company publishes its financial information in Australian Dollars and the other members of the Group publish their financial statements in the currency of the country in which they are incorporated and resident (including Dollars, Pounds, Euros and US Dollars). It is intended that the Company will publish its financial information in Pounds following Admission. The financial information in this document has been presented, unless otherwise stated, in Pounds (GBP).

The financial information contained in this document, including that financial information presented in a number of tables in this document, has been rounded to the nearest whole number or the nearest decimal place. Therefore, the actual arithmetic total of the numbers in a column or row in a certain table may not conform exactly to the total figure given for that column or row. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

The financial information contained in this document, including that financial information presented in a number of tables in this document, is either taken from the Group's audited accounts or from the Group's unaudited management accounts.

Certain non-IFRS measures such as Group Operating NPAT (being net profit after tax excluding non-operating one-off transaction costs), have been included in the financial information, as the Directors believe that these provide important alternative measures with which to assess the Group's performance. You should not consider Group Operating NPAT as alternatives for Revenue, Operating Profit or net profit after tax which are Adopted IFRS measures. Additionally, the Company's calculation of Group Operating NPAT may be different from the calculation used by other companies and therefore comparability may be limited.

Certain economic, market and other historical information contained in this document has been obtained from published sources prepared by other parties. Certain of the estimates contained herein are subject to change and are uncertain due to limits on the availability and reliability of primary sources of information and the voluntary nature of the data gathering process. As a result, investors should be aware that certain of the data contained herein, and estimates and beliefs based on that data, may not be reliable. Although the Company believes the sources referred to herein are reliable, neither the Company, Canaccord Genuity nor any of their respective affiliates have independently verified such information and cannot guarantee its accuracy or completeness.

### **General notice**

This document has been drawn up in accordance with the AIM Rules and it does not comprise a prospectus for the purposes of the Prospectus Regulations 2005 in the United Kingdom. It has been drawn up in accordance with the requirements of the Prospectus Directive only in so far as required by the AIM Rules and has not been delivered to the Registrar of Companies in England and Wales for registration.

**Notice to overseas persons**

This document does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe for or buy, shares to any person. This document must not be taken, transmitted, distributed or sent, directly or indirectly, in, or into, the United States of America, Canada, Japan, the Republic of Ireland or the Republic of South Africa or transmitted, distributed or sent to, or by, any national, resident or citizen of such countries.

The distribution of this document outside the UK may be restricted by law. Persons outside the UK who come into possession of this document should inform themselves about the distribution of this document in their particular jurisdiction. Failure to comply with those restrictions may constitute a violation of the securities laws of such jurisdiction.

**Notice to Australian persons**

This document does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe for or buy Ordinary Shares to any person in Australia. This document is not, and does not purport to be a document containing disclosures to investors for the purposes of Part 6D.2 of the Australian Corporations Act 2001 (Cth) and will not be filed with the Australian Securities and Investments Commission. This document is available to Shareholders in Australia for information purposes only in the context of the application for admission to trading on AIM of the Entire Issued Share Capital.

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## KEY STATISTICS AND EXPECTED TIMETABLE OF PRINCIPAL EVENTS

### Upon Admission

Number of Ordinary Shares in issue at Admission	105,478,744
Closing mid-market share price on 1 December 2016 (being the last trading day of the Ordinary Shares on the ASX prior to the publication of this document) (the “ <b>Closing Mid-Market Share Price</b> ”)	\$0.355
£ : A\$ exchange rate used to calculate the estimated market capitalisation of the Company (the “ <b>Exchange Rate</b> ”)	1 : 0.5916
Estimated market capitalisation of the Company on Admission (based on the Closing Mid-Market Share Price and Exchange Rate)	£22.2 million
AIM “ticker”	TSL
ISIN	AU000000TSM0
SEDOL	BYWVJ89

### From 6 December 2016

On 6 December 2016, the ISIN and SEDOL associated with the Company will change to the following:

ISIN	AU000XINEAE8
SEDOL	BYWVLS3

### 2016

Publication of this document	1 December
Admission and commencement of dealings in the Entire Issued Share Capital on AIM	2 December

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#### Notes

- (1) References to time in this document are to London (GMT) time.
- (2) If any of the above times or dates should change, the revised times and/or dates will be notified to Shareholders by an announcement on an RIS.

## DIRECTORS AND ADVISERS

Directors (from Admission):	Ned Montarello (Executive Chairman) Fernando de Vicente (Chief Executive Officer) Gary Halton (Chief Financial Officer) Keith Jones (Non-Executive Director and Deputy Chairman) Peter Gammell (Independent Non-Executive Director) David Adams (Independent Non-Executive Director) Roger McDowell (Independent Non-Executive Director)
Registered Office:	Suite 5, 531 Hay Street, Subiaco, WA 6008, Australia
Company Secretary (UK):	Prism Communications & Management Limited 42-50 Hersham Road Walton-on-Thames Surrey KT12 1RZ
Company Secretary (Australia):	Jill Dorrington Suite 5 531 Hay Street Subiaco WA 6008 Australia
Corporate website:	<a href="http://www.thinksartworld.com">www.thinksartworld.com</a>
Nominated Adviser, Broker and Financial Adviser:	<b>Canaccord Genuity Limited</b> 88 Wood Street London EC2V 7QR
Reporting Accountants:	<b>KPMG LLP</b> 15 Canada Square London E14 5GL
Solicitors to the Company as to English law:	<b>Macfarlanes LLP</b> 20 Cursitor Street London EC4A 1LT
Solicitors to the Company as to Australian law:	<b>Herbert Smith Freehills</b> 250 St Georges Terrace Perth WA 6000 Australia
Solicitors to Canaccord Genuity:	<b>Norton Rose Fulbright LLP</b> 3 More London Riverside London SE1 2AQ
Financial PR Adviser:	<b>Instinctif Partners</b> 65 Gresham Street London EC2V 7NQ
Company Registrars:	<b>Computershare Investor Services Pty Limited</b> Level 11, 172 St Georges Terrace Perth WA 6000 Australia
Depository:	<b>Computershare Investor Services plc</b> The Pavilions Bridgwater Road Bristol BS13 8AE

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

<b>“Admission”</b>	admission of the Entire Issued Share Capital to trading on AIM becoming effective in accordance with rule 6 of the AIM Rules;
<b>“Admission Date”</b>	the date on which Admission occurs;
<b>“Admission Document” or “admission document”</b>	this document dated 1 December 2016;
<b>“Adopted IFRS” or “IFRS”</b>	International Financial Reporting Standards as adopted by the EU;
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange;
<b>“AIM Rules”</b>	the rules from time to time (including, without limitation, any guidance notes or statements of practice) which govern the responsibilities of companies whose shares are admitted to trading on AIM;
<b>“ASX”</b>	the Australian Securities Exchange, operated by ASX Limited (ABN 98 008 624 691);
<b>“Audit and Risk Committee”</b>	the audit and risk committee of the Board, as constituted from time to time;
<b>“Beaufort”</b>	Beaufort Securities Limited, 63 St Mary Axe, London EC3A 8AA;
<b>“Board”</b>	the board of Directors of the Company from time to time, or a duly constituted committee thereof;
<b>“Brexit”</b>	the outcome of the referendum on 23 June 2016 as to the withdrawal of the UK’s membership of the EU;
<b>“Canaccord Genuity”</b>	Canaccord Genuity Limited of 88 Wood Street, London, EC2V 7QR;
<b>“Carphone Warehouse”</b>	The Carphone Warehouse Limited (an indirect subsidiary of Dixons Carphone plc);
<b>“CCAs”</b>	Consumer Credit Act 1974 and 2006;
<b>“cents”</b>	Australian cents;
<b>“certificated” or “in certificated form”</b>	recorded on the relevant register of the share or security concerned as being held in certificated form (that is not in CREST);
<b>“City Code”</b>	the UK City Code on Takeovers and Mergers;
<b>“Company”</b>	ThinkSmart Limited, a company incorporated with limited liability in Australia with company number ACN 092 319 698 whose registered office is at Suite 5, 531 Hay Street, Subiaco, WA 6008, Australia;
<b>“Constitution”</b>	the constitution of the Company, as amended from time to time;
<b>“Corporations Act”</b>	the Corporations Act 2001 of the Commonwealth of Australia (as amended);
<b>“CREST”</b>	the computer based system and procedures which enable title to securities to be evidenced and transferred without a written instrument, administered by Euroclear;
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (as amended);
<b>“Deed Poll”</b>	the deed poll executed by the Depositary on or around the date of this document relating to the depositary interests;

<b>“Depository”</b>	Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE;
<b>“Depository Agreement”</b>	the agreement for the provision of depositary and custody services made between the Company and the Depository dated on or around the date of this document;
<b>“Depository Arrangements”</b>	the Deed Poll and the Depositary Agreement;
<b>“Depository Interests”</b>	dematerialised depositary interests issued by the Depository, in accordance with the Depositary Arrangements, and representing an entitlement to Ordinary Shares, which may be traded by CREST in dematerialised form;
<b>“Directors”</b>	the directors of the Company, with effect from Admission, whose details are set out in section 9.1 of part 1 of this document;
<b>“Dixons Carphone”</b>	Dixons Carphone plc and/or any of the Dixons Carphone Group Companies;
<b>“Dixons Carphone Group Companies”</b>	any subsidiary undertaking of Dixons Carphone plc and, for the avoidance of doubt, including Dixons Retail and Carphone Warehouse;
<b>“Dixons Retail”</b>	DSG Retail Limited;
<b>“DTRs”</b>	the Disclosure Guidance and Transparency Rules published by the FCA;
<b>“Entire Issued Share Capital”</b>	all of the Ordinary Shares issued in the capital of the Company;
<b>“EU”</b>	European Union;
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited, a company incorporated in England and Wales with registered number 2878738 and the operator of CREST;
<b>“FCA”</b>	Financial Conduct Authority (or any successor regulatory organisation);
<b>“FCA Rules”</b>	the rules and guidance issued by the FCA from time to time and for the time being in force (as varied by waivers or dispensations granted by the FCA);
<b>“Financial Instrument”</b>	any financial instrument requiring disclosure in accordance with rule 5.3.1R of the DTRs (and includes any transferable security, market instrument, unit in a collective investment undertaking, option, future, swap, forward or other derivative contract or financial contract for differences that is, in each case, referenced to the Ordinary Shares or has similar economic effects thereto);
<b>“FlexiGroup”</b>	FlexiGroup Limited (with ABN 75 122 574 583) of Level 8, The Forum, 201 Pacific Highway, St Leonards, New South Wales 2065;
<b>“Flexirent”</b>	Flexirent Holdings Pty Limited (with ABN 71 103 556 127) of Level 8, The Forum, 201 Pacific Highway, St Leonards, New South Wales 2065;
<b>“FOS”</b>	Financial Ombudsman Service;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended);
<b>“FY”</b>	in respect of each financial year, the Group’s financial year ended or ending 30 June;
<b>“Group”</b>	the Company and its Subsidiaries;
<b>“Group Operating NPAT”</b>	net profit after tax excluding non-operating one-off transaction costs for the Group;

<b>“HMRC”</b>	HM Revenue and Customs;
<b>“Holding”</b>	any legal or beneficial (whether direct or indirect) interest of a person in shares of the Company (including any position in Financial Instruments and any interest of persons connected to such person);
<b>“ICAEW”</b>	the Institute of Chartered Accountants in England and Wales;
<b>“Independent Director”</b>	a director who the Board considers to be independent for the purposes of the QCA Corporate Governance Code;
<b>“Introduction”</b>	the introduction of the Entire Issued Share Capital to AIM by Canaccord Genuity, as agent of the Company, pursuant to the Introduction Agreement;
<b>“Introduction Agreement”</b>	the introduction agreement relating to the Introduction dated on or around the date of this document between, amongst others, (1) the Company, (2) the Directors, (3) David Twigg and (4) Canaccord Genuity;
<b>“LLIS”</b>	Lease and Loan Insurance Services, a trading style of Great American Speciality & Affinity Limited;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“OFT”</b>	Office of Fair Trading;
<b>“Ordinary Shares”</b>	ordinary shares in the capital of the Company, as may be represented by Depositary Interests;
<b>“pence”</b>	pence Sterling;
<b>“Product(s)”</b>	a lease product entered into by a customer for the lease of equipment from the Group, or a counterparty procured by the Group, including SmartPlan, Upgrade Anytime, TBL and Upgrade Everytime;
<b>“Prospectus Directive”</b>	the Prospectus Directive (2003/71/EC);
<b>“Prospectus Rules”</b>	the Prospectus Rules made by the FCA pursuant to sections 73(A)(1) and (4) of FSMA;
<b>“QCA Corporate Governance Code”</b>	QCA Corporate Governance Code for Small and Midsize Quoted Companies 2013 published by the Quoted Companies Alliance;
<b>“Registrar”</b>	Computershare Investor Services Pty Limited, Level 11, 172 St Georges Terrace, Perth WA 6000, Australia;
<b>“Relationship Agreement”</b>	the relationship agreement between Ned Montarello (1) and the Company (2) dated on or around the date of this document, further details of which are contained in section 16.3 of part 4 of this document;
<b>“Remuneration and Nomination Committee”</b>	the remuneration and nomination committee of the Board;
<b>“RentSmart”</b>	RentSmart Limited, a company incorporated in England and Wales with company number 03689086, being a wholly-owned subsidiary of TSEL;
<b>“Santander”</b>	Santander UK Plc;
<b>“Santander Facility Agreement”</b>	facility agreement dated 15 December 2014 between TSEL (as Parent), TFSL (as Borrower) and Santander (as Lender) for up to the amount of £10 million (as amended by a Supplemental Amendment Agreement dated 15 May 2015 between TSEL, TFSL and Santander);
<b>“Santander TA Guarantee”</b>	New South Wales law guarantee and indemnity dated 15 December 2014 between the Company and Santander for the obligations of TFSL to Santander;

<b>“Senior Managers”</b>	the senior managers of the Group as at the date of this document, whose details are set out in section 9.2 of part 1;
<b>“Shareholder(s)”</b>	holders of Ordinary Shares, including holders of Depositary Interests;
<b>“Significant Shareholder(s)”</b>	any Shareholder who has a Holding of 3% or more of the Entire Issued Share Capital;
<b>“SmartPlan”</b>	SmartPlan Business Leasing, being a 3 or 4 year lease of equipment to SME customers of Dixons Retail;
<b>“SMEs”</b>	small and medium sized enterprises;
<b>“STB”</b>	STB Leasing Limited, being a wholly owned subsidiary of Secure Trust Bank plc;
<b>“STB CDS”</b>	the credit default swap agreement between RentSmart and STB dated 18 February 2011 (which is accounted for as a financial guarantee contract);
<b>“STB Invoice Discounting Agreement”</b>	the invoice discounting agreement for up to £20 million made between STB and ThinkSmart UK Limited dated 15 November 2016;
<b>“STB Operating Agreement”</b>	the operating agreement dated 16 February 2011 for up to £60 million between STB and RentSmart (as amended from time to time and as amended and restated on 5 November 2015) and which, it is intended, will be further amended and restated to reflect the insurance income arrangements set out in section 4.6 of part 1 below);
<b>“STB TA Guarantee”</b>	guarantee and indemnity dated 15 February 2011 between the Company and STB for the obligations of RentSmart under the STB Operating Agreement and the STB CDS;
<b>“Subsidiaries”</b>	the subsidiaries of the Company as at the date of this document, whose details are set out in section 3 of part 4;
<b>“TBL”</b>	ThinkSmart Business Leasing, being a 3 or 4 year lease of equipment to SME customers outside of Dixons Retail's offering;
<b>“TFSL”</b>	ThinkSmart Financial Services Limited, a company incorporated in England and Wales with company number 05176340, being a wholly-owned subsidiary of TSEL;
<b>“TSEL”</b>	ThinkSmart Europe Limited, a company incorporated in England and Wales with company number 04610727, being a wholly-owned subsidiary of the Company;
<b>“ThinkSmart Options”</b>	options to take up Ordinary Shares in the capital of the Company;
<b>“TISA”</b>	ThinkSmart Insurance Services Administration Limited, a company incorporated in England and Wales with company number 05932182, being a wholly-owned subsidiary of TSEL;
<b>“UK”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Listing Authority”</b>	the FCA, acting in its capacity as the competent authority for the purposes of FSMA;
<b>“uncertificated” or “in uncertificated form”</b>	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“Upgrade Anytime”</b>	Upgrade Anytime Leasing, being a 2 year lease of equipment to consumer customers of Dixons Retail, with an option for customers to upgrade equipment at any time during the lease term;

**“Upgrade Everytime”**

Upgrade Everytime Leasing, being a 23 month lease of equipment, with the customer taking out a 12 month SIM-only contract in parallel, available to customers of Carphone Warehouse;

**“A\$”, “\$” or “Dollars”**

Australian Dollars;

**“€” or “Euros”**

Euros; and

**“£” or “Pounds”**

Pounds Sterling.

## GLOSSARY OF COMMERCIAL TERMS

The following terms have the following meanings throughout this document unless the context otherwise requires:

<b>“API”</b>	application programme interface;
<b>“ATV”</b>	average transaction value;
<b>“B2B”</b>	business-to-business;
<b>“B2C”</b>	business-to-consumer;
<b>“CRM”</b>	customer relationship management system;
<b>“CSB”</b>	credit support balance – a restricted cash deposit held with STB as collateral against the STB CDS;
<b>“customer”</b>	a person entering into a lease contract in relation to a Product;
<b>“customer account”</b>	an account offered to the Group’s customers, where a customer receives a pre-approved credit limit, which they can use to lease multiple pieces of equipment up to the value of that limit without the need to make additional credit applications;
<b>“DCA”</b>	debt collection agency;
<b>“equipment”</b>	products, equipment or devices selected by a customer from one of the Group’s retail partners which is capable of being leased with a Product;
<b>“high-volume small-ticket”</b>	indicates items of equipment which retail at, on average, approximately £1,000 (excluding VAT) (in relation to B2B) and £650 (excluding VAT) (for B2C), and which the Directors believe have a replacement cycle of less than 5 years (including tablets, laptops and televisions);
<b>“iBeacons”</b>	a protocol which allows certain (capable) mobile devices to react with the physical world and to deliver content to users based on that user’s location;
<b>“inertia” or “inertia income”</b>	revenue generated beyond the initial term of the lease, either by the customer continuing to lease the equipment after the expiry of the initial lease period or from sales of equipment at the end of the lease;
<b>“Infinity”</b>	the previous iteration of Upgrade Anytime;
<b>“Infolease”</b>	the back office contract management system which ensures that accounts with customers are maintained accurately and performs direct debit collections as well as lessor accounting;
<b>“lease finance”</b>	the provision, or procurement, of finance to customers to enable them to lease equipment from the Group’s retail partners;
<b>“mobile app”</b>	a computer programme designed to run on mobile devices such as smartphones;
<b>“multi-channel”</b>	in-store, online or by phone;
<b>“non-regulated B2B leases”</b>	limited company and limited liability partnership hire agreements;
<b>“OWASP”</b>	Open Web Application Security Project;
<b>“PCI-DSS”</b>	Payment Card Industry Data Security Standards;
<b>“platform”</b>	the combination of interconnected systems and technology which enables the Group to offer its Products to customers, and which includes the SmartCheck system;
<b>“point-of-sale lease finance”</b>	lease finance provided at the point of implementation of the transaction (whether it be in-store or online);
<b>“referral rate”</b>	the percentage of customer applications in relation to which a decision is not automatically made and requires manual underwriting;

<b>“regulated B2B leases”</b>	non-limited company and non-limited liability partnership hire agreements; and
<b>“settled value”</b>	the full up-front invoice value (excluding VAT) of equipment being leased to customers.

## **EXECUTIVE SUMMARY**

The following information is derived from, and should be read in conjunction with, the whole of this document including in particular the section headed Risk Factors relating to the Company in part 2 of this document. Please read the whole of this document and not rely on this Executive Summary section.

### **1 Information on the Group**

The Group is a leading provider in the UK of retail point-of-sale lease finance for high-volume small-ticket electronic and commercial equipment (such as tablets, laptops, desktop computers and televisions) and has also recently launched a new Product in conjunction with Carphone Warehouse to lease iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices, within the UK. The Group provides both business-to-business (“**B2B**”) and business-to-customer (“**B2C**”) point-of-sale lease finance through its lease Products. The use of technology is at the core of the Group’s business, including the decision-making system, SmartCheck, which enables rapid credit decisions to be made at the point-of-sale. The Group was founded in Australia in 1996 and commenced operations in the UK in 2003. Following the sale of its Australian and New Zealand operations in early 2014, the Group’s primary trading operation has been in the UK.

The Group has a long-standing relationship with one of the UK’s leading electrical retailers, Dixons Retail, a Dixons Carphone Group Company. Dixons Carphone reported approximately £6.4 billion of annual sales in the UK and Ireland in the year ended 30 April 2016. The Group has, in relation to the leasing of certain equipment, which includes tablets, laptops, computers and televisions and associated peripheral accessories, a mutually exclusive contract with Dixons Retail which has been extended five times since 2002. The Group has also recently agreed a five year exclusive contract with Carphone Warehouse to provide its customers with lease finance for iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices, through Upgrade Everytime, which has recently launched in all Carphone Warehouse stores in the UK. In addition, the Group has a number of smaller arrangements with retailers offering point-of-sale lease financing for a variety of different items including photographic and catering equipment.

Since its inception in the UK in 2003, the Group has processed in excess of 350,000 customer applications in the UK, with the customer data owned by the Group and, as at 30 June 2016, had approximately 59,000 live customer contracts.

The Group’s platform is underpinned by a proprietary, innovative and scalable point-of-sale leasing platform called SmartCheck. It provides rapid credit decision making for high-volume small-ticket transactions. SmartCheck integrates directly into a retailer’s existing point-of-sale system, is scalable to a wide range of equipment categories and is expandable to include consumer credit. The Group has developed this technology and continues to make improvements to the system. For example, the Group has recently launched a new decision engine with Dixons Retail, which allows the automation of more decisions and therefore reduces the call centre referral rate.

The Group currently offers four main Products (SmartPlan, Upgrade Anytime, ThinkSmart Business Leasing and Upgrade Everytime), which provide point-of-sale lease finance to customers. Upgrade Everytime is the Group’s latest Product and it has recently been launched through an exclusive contract with Carphone Warehouse.

### **2 Key strengths and advantages**

The Directors believe that the Group has a number of key strengths and advantages that are important to the success of the business:

- a longstanding, exclusive relationship with Dixons Retail, one of the UK’s leading electrical retailers, for the provision of B2B and B2C leases on certain equipment including computers, laptops, tablets and televisions. This relationship has been in place for approximately 14 years, with the contract being extended five times, with the most recent extension lasting until at least early 2019. The Group aims to leverage this exclusive arrangement to obtain new customers through greater online presence on Dixons Retail’s website alongside increased in-store marketing;

- a five year exclusive contract with Carphone Warehouse to provide it with multi-channel lease finance for iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices via the Upgrade Everytime Product, which will allow Carphone Warehouse customers to upgrade their device after an initial 12 month period. Mobile phones are the biggest market in UK technology, with 91.5 million live UK mobile subscriptions being in existence at the end of 2015 and 93% of adults in the UK owning or using a mobile phone. With this in mind, the Directors believe that this agreement provides the Group with an opportunity to significantly expand its customer base. The Group is targeting 50,000 new customers in the first 12 months of Upgrade Everytime's launch and an additional 90,000 new customers during the second 12 months of Upgrade Everytime's launch;
- the Group's purpose-built customer on-boarding and account servicing system called SmartCheck, which combines in-house development and third-party systems. The Group has developed this technology and continues to make improvements to the system. For example, the Group has recently launched a new decision engine with Dixons Retail, which allows the automation of more decisions and therefore reduces the rate of referrals to the call centre;
- a set of leasing Products which have attractive features for retailers, customers and manufacturers;
- a highly skilled and experienced management team with an understanding of both the retail and finance sectors, with many of the senior management team previously holding positions within the Dixons Carphone Group Companies;
- a diverse range of income streams, such as: (i) commission income arising from leases funded by the STB Operating Agreement; (ii) lease finance income from leases funded by the Santander Facility Agreement and the STB Invoice Discounting Agreement; (iii) commission income from the Group's cross-selling of third party insurance products; (iv) revenue from sales of equipment returned by customers at the end of the lease term; and (v) revenue from customers who retain the equipment after the initial lease term and continue making lease payments; and
- a customer-focused digital capability which involves online basket integration (which was launched on the PC World Business website in July 2016 and has been live on the Wex Photographic website since 2012), a customer account (which has been launched with Dixons Retail) and a mobile app (which the Directors expect will be launched in 2017).

### **3 Reasons for the Introduction and Admission**

The Directors believe that Admission provides an attractive proposition for a number of reasons, including, but not limited to, more closely aligning the Company's trading market and shareholder base with its operations in the UK; raising the profile of the Company from a commercial and capital markets perspective; and providing the potential to access the UK equity capital markets for funding the Company's future development.

In addition, given the financial, administrative and compliance obligations and costs associated with maintaining an ASX listing in addition to an AIM listing, the Company has resolved to delist its Ordinary Shares from the ASX shortly following Admission.

### **4 Directors**

On Admission, the members of the Board and their positions will be:

**Ned Montarello** (Executive Chairman)

**Fernando de Vicente** (Chief Executive Officer)

**Gary Halton** (Chief Financial Officer)

**Keith Jones** (Non-Executive Director and Deputy Chairman)

**Peter Gammell** (Independent Non-Executive Director and Chair of the Nomination and Remuneration Committee and member of the Audit and Risk Committee)

**David Adams** (Independent Non-Executive Director and Chair of the Audit and Risk Committee and member of the Nomination and Remuneration Committee)

**Roger McDowell** (Independent Non-Executive Director and member of the Nomination and Remuneration and Audit and Risk Committees)

**5 Dividend policy**

The Directors do not currently intend to pay a dividend for the FY17 period. The Directors will continue to monitor and review the Group's dividend policy from time-to-time in line with the actual performance of the Group.

**6 Risk factors**

Shareholders should note the risks associated with the Company as set out in part 2 of this document.

## PART 1

### Information on the Company

#### 1 Introduction

The Group is a leading provider in the UK of retail point-of-sale lease finance for high-volume small-ticket electronic and commercial equipment (such as tablets, laptops, desktop computers and televisions). The Group has also recently launched a new Product in conjunction with Carphone Warehouse to lease iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices within the UK. The Group provides both business-to-business (“**B2B**”) and business-to-customer (“**B2C**”) point-of-sale lease finance through its lease Products. The use of technology is at the core of the Group’s business, including the decision-making system, SmartCheck, which integrates directly into a retailer’s existing point-of-sale system and enables rapid credit decisions to be made at the point-of-sale. The Group was founded in Australia in 1996 and commenced operations in the UK in 2003. Following the sale of its Australian and New Zealand operations in early 2014, the Group’s primary trading operation has been in the UK.

The Group provides an attractive proposition to retailers, customers and manufacturers. The Products that the Group offers enable the initial invoice price to be broken down, so that rather than paying a one-off sum on purchase, customers pay through a number of smaller, monthly payments over the term of the lease. The Directors believe that customers are more likely to choose to shop for premium brands and at higher price points where payment is made on a monthly basis compared to an initial one-off sum on purchase. The Directors also believe that customers add more ancillary equipment, such as printers, computer peripherals and other accessories, in a transaction for equipment using a Product as opposed to making a one-off cash purchase. The Group’s leasing Products can engender customer loyalty for retailers as they incentivise customers to return to the retailer at the end of, or during, the term of the lease to upgrade their equipment, and can give customers a cash incentive to do so (depending on the Product used). The Directors believe that manufacturers of high-volume small-ticket equipment benefit from the Group’s Products as they support the link between customer replacement cycles and the launch of manufacturers’ new equipment.

The Group has a long-standing relationship with one of the UK’s leading electrical retailers, Dixons Retail, a Dixons Carphone Group Company. Dixons Carphone reported approximately £6.4 billion of annual sales in the UK and Ireland in the year ended 30 April 2016. The Group has, in relation to the leasing of certain equipment, which includes tablets, laptops, computers and televisions and associated peripheral accessories, a mutually exclusive contract with Dixons Retail which has been extended five times since 2002 and currently runs to at least 2019.

The Group has also recently agreed to a five year exclusive contract with Carphone Warehouse to provide, via Upgrade Everytime, its customers with lease finance for iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices. In addition, the Group has a number of smaller arrangements with retailers offering point-of-sale lease financing for a variety of different items including photographic and catering equipment.

Since its inception in the UK in 2003, the Group has processed in excess of 350,000 customer applications in the UK, with customer data owned by the Group and, as at 30 June 2016, the Group had approximately 59,000 live customer contracts. The Directors believe that the new Carphone Warehouse agreement and the Upgrade Everytime Product for the lease of iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices will potentially result in a significant increase in active customers for the Group.

The Group has continued its investment in its scalable platform and has developed online basket functionality (which went live on the PC World Business website in July 2016 and has also been live on the Wex Photographic website since 2012), which permits customers to select one of the Products as their payment method at the checkout. The Group is also in the process of developing its mobile app, which will facilitate the Group’s customer account (which is live with Dixons Retail), whereby customers can make a single credit application to obtain a pre-approved credit limit which they can use to lease multiple pieces of equipment

without the need to make another credit application each time. The mobile app and the customer account have potential to be deployed so that customers can lease multiple pieces of equipment from multiple retailers. The mobile app is expected to be launched in 2017.

New relationships between the Group and retail partners provide a key route for the Group to acquire new customers. Growth in its target customer base provides the basis upon which the Group can grow its leasing volumes. Dixons Retail is currently the Group's primary relationship (with the Group also having recently established a new relationship with Carphone Warehouse) and particular focus on growing the number of retail partners which use the Group's platform should help to facilitate the Group's expansion into providing Products for new types of equipment and deliver new customers. The flexibility and portability of the Group's SmartCheck decision-making system and the multi-channel and multi-retailer digital offering should help to facilitate expansion into other high-volume small-ticket equipment leasing sectors. In addition, the Group is seeking to grow its sales by utilising its existing relationship with Dixons Retail and attempting to increase the range of equipment offered by Dixons Retail which can be leased using a Product.

The Directors believe that there is a demand for consumer leasing within the UK retail economy. A survey of 2,000 consumers (who were made available to the Group by OnePoll (a third party market research provider)) conducted in January 2015 indicated an appetite for leasing equipment as opposed to buying it outright, with 56% of participants responding positively to the prospect of a consumer leasing proposition.

The Company has a skilled management team with experience in both the retail and finance sectors, and a highly capable and dedicated business development team. Ned Montarello founded the Group in 1996 and remains Executive Chairman of the Company. The Group's Chief Executive Officer, Fernando de Vicente, previously spent nine years at Dixons Retail plc, initially as Chief Financial Officer of the Spanish subsidiary and then eight years in other roles including International Managing Director. The Group's Chief Financial Officer and, from Admission, an Executive Director of the Company, Gary Halton, has been Chief Financial Officer for the past eight years and has previous experience with PwC and Ernst & Young. Keith Jones, who will be, from Admission, a Non-Executive Director and Deputy Chairman of the Company, has 30 years of retail experience in Europe, including as Group Retail Director of Dixons Retail Plc and Managing Director of PC World Stores Group. Peter Gammell, Independent Non-Executive Director of the Company, currently holds appointments which include serving as Non-Executive Director of Seven West Media. Peter was previously Managing Director and Chief Executive Officer of both Australian Capital Equity Limited and Seven Group Holdings Limited. David Adams, who, from Admission, shall be an Independent Non-Executive Director of the Company, currently holds appointments which include serving as Chairman of Conviviality plc, a franchised off-licence chain and as Non-Executive Director and Chairman of the Audit Committee of Halfords plc. Roger McDowell, who, from Admission, shall be an Independent Non-Executive Director of the Company, currently holds appointments which include serving as Non-Executive Director at Premier Technical Services Group plc. Roger has 18 years of experience in the public company environment.

## 2 Background and History of the Group

### Timeline of significant events

- 1996 – The Group was founded in Australia
- 1999 – The Group launched its SmartCheck system in Australia
- 2002 – The Group, via TSEL, entered the UK market through a joint venture with HBOS plc, where RentSmart was incorporated as the joint venture vehicle
  - The Group entered into an exclusive contract with Dixons Retail
- 2003 – RentSmart opened its Manchester office
  - RentSmart commenced trading in the UK with PC World, the UK computer retailing arm of Dixons Retail Plc (as it then was), by offering leasing to businesses at the point-of-sale with SmartPlan
  - RentSmart launched SmartCheck in the UK
- 2007 – The Company was listed on the ASX

- TSEL acquired HBOS plc's 50% interest in RentSmart. HBOS plc remained the Group's sole UK funder
- 2010 – STB replaced HBOS plc as the Group's UK finance partner
- The Group launched its Infinity B2C offering in the UK
- 2014 – The Company sold its Australian and New Zealand operations to Flexirent
- The Group launched Upgrade Anytime to replace Infinity
  - The Group secured additional funding with Santander to establish a multi-funder model
- 2015 – The exclusive contract with Dixons Retail was extended for the fifth time until at least January 2019
- RentSmart extended its operating agreement with STB to at least July 2018
- 2016 – RentSmart signed a five year exclusive contract to provide Carphone Warehouse's customers with lease finance for certain devices
- Online basket integration was launched on the PC World Business website
  - The customer account facility was launched with Dixons Retail
  - FCA authorisation was granted to enable the Group to enter into regulated credit agreements as a lender
  - The Group secured additional funding with STB to fund the Upgrade Everytime Product
  - The launch of Upgrade Everytime in partnership with Carphone Warehouse

### **3 The Group's Key Strengths**

#### **3.1 Innovative and scalable point-of-sale financing solution**

The Group has developed an innovative and scalable point-of-sale leasing platform called SmartCheck. SmartCheck provides rapid credit decision making for high-volume small-ticket transactions. SmartCheck integrates directly into a retailer's existing point-of-sale system, is scalable to a wide range of equipment categories and is expandable to include consumer credit. The Group has made significant investment to date in developing and refining its existing Products, in combination with developing a more customer-centric digital experience which provides an enhanced customer journey from initial point-of-sale to end of Product term, renewal or upgrade.

The appetite of consumers to lease extends to markets beyond the coverage of the arrangement with Dixons Retail, as demonstrated by the Group's recent agreement with Carphone Warehouse in relation to iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices.

#### **3.2 Attractive business model provides benefits for retailers, consumers and manufacturers**

The terms of the Group's Products have attractive features for retailers, customers and manufacturers.

For retailers, the opportunity for customers to pay for equipment across a number of smaller monthly payments, which the Directors believe drives incremental sales; supports customers choosing more expensive pieces of equipment; shortens customer replacement cycles; and assists retailers in developing long-term customer relationships.

Customers benefit from not having to outlay the full cost of their purchase in cash upfront; the convenience of being able to combine equipment, services and accessories into one single fixed monthly payment; and the ability to upgrade through entering into a new lease and returning their existing equipment, with the opportunity for cashback on certain Products. Since inception in the UK, the Group has written in excess of 207,000 leasing contracts in the UK and, as at 30 June 2016, the Group had approximately 59,000 live contracts. The Directors estimate that approximately 15%-25% of SmartPlan customers and approximately 30%-37% of Upgrade Anytime customers enter into another lease with the Group at the end of the initial term of their lease. The Directors expect this percentage to increase over time as

they continue to roll-out new Products. This repeat custom, in addition to the high Net Promoter Scores for its Products, awarded by its customers, indicates a good level of customer satisfaction.

The Directors believe that manufacturers of high-volume small-ticket equipment seek to align customer replacement cycles with the launch of their new devices. Some of the Group's Products enable customers to upgrade their equipment at any time (in the case of Upgrade Anytime), after 12 months (in the case of Upgrade Everytime), or at the end of the initial term. The opportunity to upgrade equipment more frequently and flexibly provides a benefit to manufacturers by supporting the link between customer replacement cycles and the launch of new devices. The Group's Products typically mean that customers have to return the equipment at the end of the initial term, at which point manufacturers' new devices can be offered to them.

### **3.3 Rigorous and proven underwriting system**

The Group's Products are underpinned by the SmartCheck system. This is highly automated, and its API allows it to interact directly with third party systems including a retailer's online or in-store point-of-sale systems. Automation means that a significant proportion of the operating costs are fixed and these costs should not increase in-line with volume. SmartCheck currently has the capacity to process approximately 3,700 transactions per hour, but internal tests suggest that it is easily scalable and has the potential capacity to process up to 12,000 transactions per hour (without degradation). The SmartCheck underwriting system is therefore both flexible and scalable.

The SmartCheck system benefits from the Group's 350,000 underwriting records, in addition to drawing information from customer information provided at the point-of-sale in conjunction with third-party credit bureau data. After identity verification and credit assessment and analysis, a simple "yes / no" decision will be made (in the majority of instances). SmartCheck is also able to assign different levels of monthly instalments (called "tiers") dependent on customer creditworthiness. This "dynamic pricing" functionality is currently enabled with TBL leases. SmartCheck is able to make decisions quickly, with 45% of applications in FY16 taking less than 20 seconds to determine. The decision is automatically communicated to the retailer and, if approved, the lease agreement is generated, allowing the customer to sign, make an initial payment and then leave the store with the equipment.

The Directors believe that the SmartCheck system has been a key contributor to the Group's low full-term bad debt levels. The Group continues to make improvements to the SmartCheck system. For example, the Group has recently launched a new decision engine with Dixons Retail, which allows the automation of more decisions and therefore reduces the referral rate.

### **3.4 Exclusive agreements with Dixons Retail and Carphone Warehouse**

The Group has a longstanding, exclusive relationship with Dixons Retail (a Dixons Carphone Group Company), one of the UK's leading electrical retailers for the provision of B2B and B2C leases on certain equipment including computers, laptops, tablets and televisions. This contract has been in place for 14 years and has been extended five times, with the most recent extension lasting until at least early 2019. Dixons Carphone is one of Europe's leading specialist electrical and telecommunications retailers which (i) reported approximately £6.4 billion of annual sales in the UK and Ireland in the year ended 30 April 2016; (ii) has approximately 1,300 stores in the UK and Ireland; and (iii) has an online sales platform. The Dixons Carphone Group has also benefited in recent years from competitors exiting the market, such as Comet and Phones4U.

The Group aims to leverage this exclusive arrangement to obtain new customers through greater online presence on Dixons Retail's website alongside increased in-store marketing. Online basket integration on the PC World Business website is fully functional and went live in July 2016. The Group's customer account was also launched with Dixons Retail in June 2016.

Dixons Retail sells ranges of equipment that cannot currently be acquired through the use of a Product, such as white goods and small domestic appliances. The Group's long-standing relationship with Dixons Retail provides it with a good opportunity to increase the amount of equipment offered by Dixons Retail which can be acquired using a Product.

The Group has recently signed a five year exclusive contract with Carphone Warehouse to provide its customers with lease finance for certain devices. Upgrade Everytime was launched in November 2016 and provides a mobile phone lease finance product to Carphone Warehouse's customers in relation to iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices. It is anticipated that the customer account and the mobile app will support the upgrade process and the CRM strategy. The Directors believe that up to 80% of customers may upgrade early and that up to 95% of customers may enter into a new lease at the end of the initial term under Upgrade Everytime.

The Directors believe that the agreement with Carphone Warehouse provides the Group with a highly compelling opportunity to significantly expand its customer base. Mobile phones are the biggest market in UK technology, with 91.5 million live UK mobile subscriptions in existence at the end of 2015, with 93% of adults in the UK owning or using a mobile phone. The Group is targeting 50,000 new customers in the first 12 months of Upgrade Everytime's launch and an additional 90,000 new customers during the second 12 months of Upgrade Everytime's launch. As referred to below, the Group is currently in the process of securing additional funding (in addition to the funding that it has already secured) to ensure it has sufficient funding in place to meet this target of 90,000 new customers in the second 12 months of Upgrade Everytime's launch.

### **3.5 Propensity to use a leasing product**

The Directors believe that there is evidence of an increasing propensity for leasing, such behaviour being particularly notable amongst the younger demographic (labelled as "Generation Rent" by the Directors). The Directors believe a "usage vs ownership" trend is emerging, with people turning to leasing or hiring (whether it be in relation to houses, cars, mobile phones or electronic equipment) compared to outright ownership.

A survey of 2,000 consumers (who were made available to the Group by OnePoll (a third party market research provider)) conducted in January 2015 indicated an appetite for leasing equipment as opposed to buying it outright, with 56% of participants responding positively to the prospect of a consumer leasing proposition.

The Directors believe that manufacturers and retailers are increasingly likely to offer consumers the choice of leasing high-volume small-ticket consumer goods. This follows a trend which can be seen in the United States, where, by way of example, the mobile phone market appears to be moving towards "SIM only" tariffs, and hence distributors and manufacturers are entering the market with "phone for life" propositions, with some major network operators in the United States adopting leasing as a means to support long-term customer relationships. The Directors foresee a similar trend emerging in the UK and expect the Group's exclusive contractual arrangement with Carphone Warehouse to contribute to the emergence of this new model.

### **3.6 Strong visibility on income streams**

The Group's Products provide visibility over future income streams, with a significant proportion of revenue being predictable as it is derived from the prior years' lease originations, supported by 13 years of underlying customer behaviour data. The Group's business model also delivers attractive repeat and upgrade rates at the end of the initial term (with approximately 70% of the Group's customers extending their relationship with the Group after the end of the initial term, either by way of a new lease or continuing to lease for a further period).

Inertia income, comprising extended rental income and post-term asset sales, has proven to be highly predictable income stream which enhances the Group's earnings.

### **3.7 Finances and funding**

In FY16, the Group generated Group Operating NPAT (before non-operating strategic review and advisory expenses) of £2.2 million, up £0.3 million (16%) on FY15.

The Group has developed a multi-funder model (STB and Santander) which has resulted in improved funding terms. The Group has also entered into the STB Invoice Discounting Agreement for funding up to a limit of £20 million for the Upgrade Everytime leases which it expects to be written and will seek to expand the limits on its facilities or agree terms with new lenders in order to fund the growth of its lease book.

The Group's business model is cash generative in nature and the Group's balance sheet benefits from cash reserves (£4.9 million as at 30 June 2016).

As at the date of this document, the Group has available to it the following funding facilities: (i) up to £60 million from STB under the STB Operating Agreement; (ii) up to £10 million from Santander under the Santander Facility Agreement; and (iii) up to £20 million from STB under the STB Invoice Discounting Agreement.

### **3.8 Barriers to entry**

The Directors believe that high-volume small-ticket leasing is a niche business which requires significant investment in technology, underwriting and logistical capability, staff and key relationships, as well as access to appropriate funding. The Directors believe that the combination of these factors makes it difficult for new competitors to easily or quickly enter the market in which the Group operates.

Entering into a regulated consumer hire agreement and entering into a regulated consumer credit agreement are both regulated activities which require the appropriate permissions from the FCA. Obtaining these permissions involves a detailed application process. Additionally, the Directors believe that for the type of point-of-sale finance which the Group provides, a strong partnership between the lease provider and the retailer, and a focus on the education of the retailer's sales team on the lease provider's products, is required.

Technological and logistical capabilities are also important, as the Directors believe that in order to maximise a customer's shopping journey, the lease provider's platform needs to be efficiently connected and integrated into the retailer's sales and invoicing systems. The Directors believe that in order to fully utilise the leasing model, operations must be in place to retrieve the leased equipment, refurbish the returned equipment and then sell such refurbished equipment to a third party.

### **3.9 Clear and executable growth strategy, supported by a management team with over 30 years' experience**

The Group's management team has developed and is implementing a growth strategy, targeting further penetration of sales of its Products through Dixons Retail, and expanding into other retailers and sectors in the short and medium term.

The existing arrangement with Dixons Retail provides inherent growth potential, as not all of the equipment offered by Dixons Retail can currently be acquired using the Group's Products. Furthermore, the Directors have identified other large retailers within sectors that offer similar replacement cycles, ATVs and residual values into which the Group can explore extending their offering of Products.

The Directors believe that the new contract with Carphone Warehouse provides the Group with the significant opportunity for growth. Under this contract, the Group is targeting 50,000 new customers in the first 12 months of Upgrade Everytime's launch and an additional 90,000 new customers during the second 12 months of Upgrade Everytime's launch. The Group has up to £20 million of approved financing facilities (under the STB Invoice Discounting Agreement) which can be used to fund leases written under Upgrade Everytime. In order to meet the Group's stated sales targets for Upgrade Everytime, the Group will need to put in place additional funding facilities, including if targeted volumes are met during the second 12 months of Upgrade Everytime's launch. The Group has not yet sought to put in place additional facilities in advance, as the Directors believe it is better for the business to expand funding over time rather than maintaining large unutilised facilities.

A significant latent opportunity to increase lease volumes exists within the Group's existing customer base. The Group's customers typically only spend 29% of the total credit available to them on a single purchase. The Directors estimate that this results in approximately £120 million worth of credit being initially pre-approved but not accessed by customers. If the Group is able to offer its Products to additional retailers and combines this with the successful

launch and use of the Group's mobile app (which will alert customers to the fact that they have initially pre-approved but not accessed credit available), the Directors believe that this may create additional demand for and utilisation of this credit.

The Group is expecting to further develop its platform by integrating its Products directly into retailers' websites, enabling customers to select one of the Products as a method of payment (and this functionality went live on the PC World Business website in July 2016 and has also been live on the Wex Photographic website since 2012) and by providing the customer account, which will allow customers to shop for multiple products from multiple retailers. The customer account (which was launched with Dixons Retail in July 2016) will be supported by customers being able to download the mobile app, where, once the mobile app has been launched, they will have further functionality in respect of their account (including the ability to transact within their existing credit limit and request an increase to their existing credit limit). These developments are designed to provide a positive consumer experience for customers, and allow them to access their pre-approved credit.

In the medium term, the Group intends to broaden its consumer finance proposition to consumer credit, so that it can offer restricted use, fixed sum loans to customers to finance the purchase of equipment from retail partners. The Group is also exploring the possibility of providing B2B finance. RentSmart submitted an application to vary its FCA permissions in August 2015 to enable it to enter into regulated credit agreements as a lender and approval was granted by the FCA in June 2016.

The Group's growth strategy is supported by the Group's experienced management team which has significant experience within the retail and finance industries, with many of the senior management team previously holding positions within the Dixons Carphone Group Companies.

## 4 Group Business Overview

### 4.1 Product overview

The Group currently offers four main Products, which provide point-of-sale lease finance to customers.

#### SmartPlan

SmartPlan was launched in 2003 and is a B2B Product aimed at SMEs. This Product is exclusive to all equipment purchased in Dixons Retail's stores and on the PC World Business website.

Volumes of SmartPlan leases originated in FY16 are up by 4% on FY15 with new originations up 1% and repeats up 24%. The Directors believe that this is driven by a number of factors including: (i) increased retailer focus and promotional activity; (ii) growth in online applications; and (iii) increased approval rates from the launch of the new B2B credit scorecard and matrix in July 2015. The Directors believe that the online basket integration within the PC World Business website, which went live in July 2016, will drive increased volumes of sales. In addition, revised lower pricing for leasing of higher value equipment (i.e. above £2,500) to established businesses was implemented in July 2016, which the Directors also believe will drive increased lease originations.

Transaction values for equipment leased using SmartPlan range between £250 and £15,000 (excluding VAT), with an ATV of approximately £1,000 in FY16 (which is broadly consistent with the previous three years' ATVs).

In order to help encourage customers to take out a new finance lease, customers are offered a 25% cashback incentive (on the invoice value of the original leased equipment) if a new lease agreement is signed at the end of the initial term of the lease and the customer upgrades to a new piece of equipment. In FY16, approximately 15%-25% of the Group's SmartPlan customers whose leases were due to expire at the end of the initial term elected to upgrade to a new piece of equipment, whilst approximately 70% extended their leases beyond the initial term for at least one month.

The agreements are structured as three or four year business leases, repaid by the customer in monthly instalments over the length of the lease. At the start of the lease agreement, the Group prices the agreement on the basis that the underlying equipment will have a zero

residual value by the end of the initial term of the lease. However, the Group has found that it is able to recondition the lease equipment on the expiry of the initial term of the lease and sell the equipment to a third party.

Under the terms of B2B lease agreements (including SmartPlan and TBL), lessees of non-regulated B2B leases are obliged to take out insurance on the piece of equipment and provide the Group with details of such insurance. Should lessees of non-regulated B2B leases fail to provide the Group with proof of insurance, or respond to any subsequent correspondence from the Group, a suitable insurance policy is automatically placed upon the leased equipment by the Group's partner, Lease and Loan Insurance Services ("LLIS"). Such customers are subsequently able to opt out of this insurance policy upon confirmation that the equipment is covered under another eligible insurance policy which the customer holds. The Group receives commission income from LLIS for these arrangements (please see section 4.6 of part 1 of this document for further details). Lessees of regulated B2B leases insure the equipment themselves, or, if they fail to provide proof of such insurance within 30 days, they pay a higher rental amount to reflect the fact that the Group is at risk for uninsured equipment. It is also commercially agreed (and currently operated in practice, although not yet formally documented between RentSmart and STB) that where lessees of regulated B2B leases do not have adequate insurance for the lease equipment, (i) the rent payable by those lessees is increased to reflect the risk of damage or loss to the rented equipment and (ii) the Group receives a risk transfer fee from STB (the funding bank for the B2B leases), which increases the amount of the brokerage fee income from STB. It is proposed that an amendment will be made to the STB Operating Agreement to reflect this commercial arrangement (please see section 4.5 of part 1 of this document for further details).

The SmartPlan leases are funded by STB using an off-balance sheet brokerage arrangement. RentSmart (an indirect subsidiary of the Company) acts as an intermediary between Dixons Retail, STB and the customer in consideration for (i) an upfront brokerage fee at the point-of-sale from STB; and (ii) entitlement to all rental income and asset sales following the end of the initial term of the lease. Please see section 4.5 of part 1 of this document for further details.

In practice, Dixons Retail collects the initial rental payment for all equipment purchased using SmartPlan, with the net invoice value of the equipment paid to Dixons Retail by STB, via RentSmart. STB pays a brokerage fee to RentSmart for originating the leases and collecting the monthly instalments from customers on behalf of STB.

There are currently approximately 20,000 live SmartPlan leases. In FY16 RentSmart originated approximately £6.67 million of SmartPlan leases which constituted approximately 40% of the settled value of all leases originated by the Group. In FY16, SmartPlan generated approximately £3 million in brokerage fee income for the Group. In FY15, the Group originated approximately £6.6 million of SmartPlan leases and generated approximately £2.8 million of brokerage fee income.

### **Upgrade Anytime**

Upgrade Anytime is a B2C Product which is currently available to consumers exclusively for equipment purchased, which includes computing, tablets and television equipment, in Dixons Retail stores or via the Dixons Retail website. Infinity was revised and re-launched in May 2014 as Upgrade Anytime after consultation with Dixons Retail and the Group's customers and, since this re-launch, to 31 October 2016, approximately £27 million of new computers, tablets and televisions have been leased.

This Product enables customers to lease equipment and then elect to upgrade to the latest model at any point during the term of the lease (subject to a fee, where the customer chooses to upgrade before the end of the lease term). The Group offers cashback of 15% of the original invoice value to those customers who elect to return their old equipment and upgrade to new equipment at the end of the initial lease term as an incentive for entering into a new lease agreement. 30% to 37% of Infinity leases have been renewed and replaced with Upgrade Anytime leases at the end of their initial term.

Upgrade Anytime leases may be funded by either STB or Santander. For those Upgrade Anytime leases originated in the twelve months to 30 June 2016, approximately 48% (by settled value) were funded by Santander, with the balance funded by STB. At the point of

origination of a new Upgrade Anytime lease, the Group's platform allocates the lease to STB or Santander so as to approximately maintain this split on an unbiased basis. Equipment leased using Upgrade Anytime is priced for customers on a zero residual value basis such that payment in full to the end of the initial term will have paid off the entire settled value of the equipment. Further revenue is then generated from continued rental payments (for up to four months) following the end of the initial term of the lease, and from realising value from subsequent equipment sales.

In practice, if the lease is funded by Santander, then TFSL will draw down on the Santander facility (please see section 4.5 of part 1 of this document for further details) and RentSmart pays Dixons Retail the invoice value of the equipment less the first payment (which is equal to two monthly payments and is paid in-store). If the lease is funded by STB, the brokerage arrangement applies as it does with SmartPlan, and RentSmart will receive a brokerage fee directly from STB. In both cases, the Group will originate the lease and collect the monthly payments from customers over the term of the lease.

Transaction values for equipment leased using this Product range between £250 and £5,000 (excluding VAT), with an ATV of approximately £650 for those leases originated in FY16. The agreements are structured as two year consumer leases. A bad debt provision (in relation to the leases funded by STB) is taken for every Upgrade Anytime lease. Similar to SmartPlan, the agreements are priced for customers on the basis that the equipment has no residual value at the end of the lease term. However, due to the shorter lease length of this Product, the Group is able to recover a higher proportion of the equipment's original value.

At 30 June 2016, the approximately 39,000 live Upgrade Anytime and Infinity leases constituted approximately 66% of the settled volume of live leases originated by the Group. In FY16, Upgrade Anytime leases generated approximately £1.3 million in brokerage and subsidy fee revenue and approximately £1 million in lease finance income for the Group (compared to £0.9 million and £0.2 million respectively in FY15). New originations of Upgrade Anytime leases in FY16 were down by 6% compared to FY15. The Directors believe that the decline in new originations is driven by market uncertainty and poor performance of computing and vision categories, with little new technology coming to market, partially offset by increased approval rates from the launch of the new B2C credit scorecard and matrix in March 2015. Volumes of repeat Upgrade Anytime leases originated in FY16 are down by 63% compared to FY15. The Directors believe this is due to the expiry of the two year term of the low volume of Infinity leases written in 2014 (prior to the launch of Upgrade Anytime in May 2014).

### **ThinkSmart Business Leasing**

Launched in 2012, TBL is a B2B Product covering a wide array of equipment which is specifically catered toward providing point-of-sale lease finance for equipment for SMEs outside of Dixons Retail's offering. TBL mainly covers catering equipment, but has the ability to cover commercial laundry, window cleaning and photography equipment which is provided by a range of retailers including Logic Vending (coffee vending machines), Wex Photographic (photography) and Eskimo Joe's (slush machines).

Transaction values for this Product range between £250 and £15,000 (excluding VAT), with an ATV of approximately £2,300 in FY16 (this ATV being slightly lower than the historic ATV of approximately £2,500 which was the ATV for this Product since 2013). The leases are structured as three or four year business leases and are priced on the basis that there is no residual value at the end of the lease term.

These leases are funded by STB and the brokerage arrangement operates in the same way as with SmartPlan and Upgrade Anytime, with the Group receiving a brokerage fee from STB.

The approximately 1,100 live TBL leases constituted 2% of the settled value of all leases originated by the Group in FY16, with the majority of originations for TBL related to catering equipment. In FY16, TBL generated approximately £80,000 in brokerage fee income for the Group and in FY15, TBL generated approximately £300,000 of brokerage fee income for the Group.

Prior to 2015, the Group made the vast majority of its sales of TBL through brokers, who were remunerated on a revenue share basis. Due to a marked increase in bad debt rates of customers originated through this channel, the Group opted to terminate these arrangements with brokers and focused its origination strategy on direct retailer agreements through an internal frontline sales team.

Please see the section above concerning SmartPlan for details about the insurance arrangements for TBL customers.

### **Upgrade Everytime**

Upgrade Everytime was launched in November 2016, following an exclusive agreement with Carphone Warehouse to provide a mobile phone lease product to Carphone Warehouse's customers.

The leases are structured as 23 month leases for iPhone 7, iPhone 7 Plus and Samsung Galaxy S7 devices, with the customer taking out a 12 month SIM-only contract in parallel. From month 12, the customer has the option to upgrade to a new device if they return the original device in good working order and take out a new lease agreement and airtime contract. If, after 23 months, the customer has not upgraded, the customer can choose to return the device and take out a new Upgrade Everytime lease; return their device in good working order or pay an additional monthly rental amount and retain the device for a further 10 years, after which point the device must be returned.

## **4.2 Account Servicing**

The Group's platform is underpinned by an innovative and scalable point-of-sale leasing platform called SmartCheck. SmartCheck provides rapid credit decision making for high-volume small-ticket transactions. The underlying IT infrastructure is a combination of physical servers and cloud based servers, which is flexible and scalable and reduces operating capacity restrictions. The system has the current capacity to process approximately 3,700 applications per hour, but the Directors believe the platform has the potential capacity to process up to 12,000 applications per hour (without degradation). The Group has developed this technology and continues to make improvements to the system. For example, the Group has recently launched a new decision engine with Dixons Retail, which allows the automation of more decisions and therefore reduces the referral rate.

At the centre of the Group's platform is its data warehouse, which contains over 350,000 underwriting records (including rejected applications). The data warehouse has been used to improve the underwriting process and the Directors believe that this is a key factor in the control and predictability of total bad debt levels for Upgrade Anytime and for SmartPlan.

The SmartCheck system processes personal data from a variety of sources and uses a pre-defined scorecard to arrive at a credit decision for a potential customer. The system is designed to give a "yes / no" response and, in relation to TBL leases, the system applies a dynamic pricing function and assigns different levels of monthly instalments ("tiers"), dependent on customer creditworthiness. Whilst the system is highly automated, the Group's underwriting team can interact with the process through the SmartCheck desktop application. SmartCheck's API layer allows interaction directly with retailers' online systems, and will offer integration with the mobile app.

Customer data is drawn from information collected at the point-of-sale and third-party credit bureau data. The data is applied against a scorecard and credit policy rules to make a decision. For business customers, both the business and individuals (for example directors) are assessed for credit-worthiness. The credit policy rules engine is currently being upgraded to support the potential deployment of these strategies to new products and markets.

As an example of how this technology works:

- A customer goes to Dixons Retail to buy a tablet.
- At the point-of-sale, Dixons Retail's staff may offer the customer the choice to use one of the Group's Products to lease it.

- The customer applies to lease the tablet. Dixons Retail's system is directly connected to the Group's system, which uses the SmartCheck system to run the necessary checks to confirm whether the customer fulfils its lending criteria and whether the Group will arrange the financing required to lease the tablet.
- The checks typically take a couple of minutes (but the majority of decisions for B2C leases take less than 20 seconds) and, if the transaction is approved, Dixons Retail receives the purchase price for the tablet and the customer can leave the store with the tablet.

Once a lease has been originated, it is uploaded from the front office origination system (i.e. SmartCheck) to the back office contract management system (Infolease). Infolease ensures that accounts with customers are maintained accurately and performs direct debit collections as well as lessor accounting. This system also alerts the collection team on late payments and follow-up actions and provides an analysis of bad debt trends across the leasing portfolio.

#### **4.3 Other Technology**

The Group has made significant investment in its systems in recent years to adapt to consumer requirements. The Group developed online basket integration functionality, which went live on the PC World Business website in July 2016 in addition to the Wex Photographic website. Online basket integration has been secured to OWASP standards.

The Group's mobile app has now been accredited by both the Apple App Store (for iOS devices) and the Google Play App Store (for Android devices). The Directors expect the mobile app to be launched in 2017. It is designed to offer the Group's customers access to their individual account and enable customers to lease new pieces of equipment, up to the value of their credit limit, without the need to make a further credit application. There is potential for further development of the customer account's features to include: (i) the customer being able to request an increase to their credit limit; (ii) an in-store 'pickup' option via barcode solution; (iii) equipment 'scanning' functionalities to identify payment options; and (iv) account servicing to enable access to and management of customer account information. Additionally, device push notifications and targeted messaging through location services and iBeacons technology are designed to increase levels of consumer engagement.

#### **4.4 Retailers, Customers and Manufacturers**

The Directors believe that the Group's Products benefit retailers, customers and manufacturers, for the reasons set out below.

##### **Retailers**

Retailers benefit in a number of ways from promoting the Products as a means of paying for their stock.

*Drives incremental sales:* The Products encourage increased revenues for retailers, as customers often add additional items such as printers, computer peripherals and cases to their purchases. Customers are not restricted by a requirement to have all of the cash necessary to pay for these goods upfront.

*Improves margin performance:* The Directors believe, from an analysis of feedback received from Dixons Retail, that the Products can improve margin performance by up to 40%. The Directors believe that as customers opt to make monthly payments, in contrast to a single upfront payment, they choose to shop for premium brands, shop at higher price points and add higher margin accessories and services to their basket.

*Brings forward sales and shortens customer replacement cycles:* The Directors believe that customers upgrade and replace devices up to two times more often due to the increased flexibility made available to them by Upgrade Anytime and SmartPlan. Between 30% and 40% of B2C customers choose to upgrade their device, primarily at or after the end of their initial lease period, with a typical associated ATP uplift of 10% to 15%. Dixons Retail benefits from this flexibility as it encourages additional expenditure in-store with them.

*Creates long term customer relationships:* Dixons Retail and Carphone Warehouse are provided with the opportunity to build future sales as customers return to upgrade. Cashback (on some Products) is offered to customers if they elect to upgrade at the end of the initial

lease term, encouraging repeat custom for Dixons Retail. The Directors believe that the upcoming launch of the customer account will support multiple and repeat purchases. The Directors believe that Carphone Warehouse will benefit from the flexibility that Upgrade Everytime provides its customers.

*Easily integrated into digital shopping journeys:* The Products can be delivered in-store, online and through the Group's contact centre. The revised platform which is expected to include a multi-channel, multi-retailer offering is expected to be launched in 2017 (with some aspects of the new platform already being live) and has the potential to be developed to allow customers to shop across a variety of retailers using their customer account. In addition, online basket integration has been designed to be easily integrated with retailers' e-commerce platforms.

### **Customers**

The Group's customers benefit from the Products, when acquiring goods from retailers, in a number of ways:

*Managing outgoings:* The Products reduce the need for customers to outlay a significant amount of cash upfront for equipment. With an average ATV in FY16 of £784 (approximately £650 for B2C and approximately £1,000 for SmartPlan), the customer is able to spread this over a period of 24 to 48 months (depending on the Product).

*Convenience:* Use of the Products allows the combination of additional equipment and accessories together into one single fixed monthly payment.

*Customers have access to the latest model:* Upgrade Anytime gives customers the flexibility to obtain the latest models without significant additional outlay upfront, as the Product is structured such that (upon payment of a fee) the customer can upgrade at any point during their lease term upon entering into a new lease and returning their existing equipment to Dixons Retail. Additionally, Upgrade Everytime provides Carphone Warehouse customers with the ability to upgrade their device after 12 months, provided they return their original device in good working order and enter into a new lease agreement and airtime contract, which aligns with manufacturers' new product development cycles.

*Cash flow for B2B customers:* SmartPlan and TBL reduce costly upfront capital expenditure for businesses by spreading the cost of equipment across a number of years.

*Enjoyable shopping experience:* The Group's recent development of its digital offering now enables it to provide online basket integration on the PC World Business website (which went live in July 2016) and on the Wex Photographic website (this functionality has been live since 2012). Additionally, the Group's customer account facility (which is now live with Dixons Retail) provides a single approval process for a multi-lease account and thus a convenient service for customers. This will be complemented by the roll out of the Group's mobile app, expected to be launched in 2017.

### **Manufacturers**

*Aligning customer replacement cycles with new equipment launches:* The Directors believe that manufacturers of high-volume small-ticket equipment seek to align customer replacement cycles with the launch of their new devices. Some of the Group's Products enable customers to upgrade their equipment at any time (in the case of Upgrade Anytime), after 12 months (in the case of Upgrade Everytime), or at the end of the initial term. This opportunity to upgrade equipment more frequently and flexibly provides a benefit to manufacturers by supporting the link between customer replacement cycles and the launch of new devices. The Group's Products typically mean that customers have to return the equipment at the end of the initial term, at which point manufacturers' new devices can be offered to them.

## **4.5 Funding Arrangements**

Having secured funding from Santander in December 2014, the Group has agreements in place with two separate funding institutions. The Directors believe that the Group's relationships with STB and Santander are strong and that they would each be open to the possibility of extending the size of the facilities made available to the Group. During the process of securing funding with Santander, the Group was in discussions with a number of other funders and the Directors believe that there may be opportunities to secure additional funding from institutions other than STB and Santander in order to fund increased levels of

new business. The Directors believe that in order to meet targeted volumes on each of the Products (especially the current target in relation to Upgrade Everytime, of 90,000 new customers in the second 12 months of its launch), the size of the facilities will need to be extended and/or additional funding from additional lenders will need to be procured. The Group has not sought to put in place additional facilities in advance as the Directors believe it is better for the business to expand funding over time rather than maintaining large unutilised facilities.

### **STB Operating Agreement**

The Group, through the Company's indirect subsidiary, RentSmart, has a longstanding relationship with STB which goes back to 2010. STB and RentSmart have recently revised the terms of the STB Operating Agreement, which allows for the funding by STB of new B2B and B2C leases until at least July 2018 and will continue, pursuant to its terms, thereafter until one of the parties serves a notice to terminate. Under the STB Operating Agreement, STB has made a funding line of up to £60 million available to RentSmart (for use across all of the Products). As at 30 June 2016, approximately 35% of this amount was utilised.

Leases funded by STB under the STB Operating Agreement do not sit on RentSmart's balance sheet. This is because RentSmart is not the lessor, but instead acts as an intermediary between the retailer, STB and the customer by paying monies (funded by STB) to the retailer for the invoice value of the equipment and collecting the monthly lease payments from customers and then distributing such amounts to STB. RentSmart receives an upfront brokerage fee from STB at the point-of-sale. The STB Operating Agreement governs the terms of this brokerage arrangement between RentSmart and STB. Upon the expiry of the initial lease term, or on an early repayment by a customer of a lease in full, RentSmart has the right to purchase from STB the relevant equipment and lease for £1. This entitles RentSmart to all secondary rental income and revenue from sales of equipment following the end of the initial term of the lease; such amounts are recognised as pure income for RentSmart. Under the STB Operating Agreement, STB also has the right to require RentSmart to purchase a lease which (a) has terminated early (but without STB having consented to such early termination) or (b) which is, or which becomes, an ineligible lease (i.e. where RentSmart did not comply in a material respect with its obligations in respect of the approval and origination of a lease or if RentSmart has given incorrect warranties relating to a lease).

In support of RentSmart's obligations to STB, RentSmart and STB have entered into the STB CDS whereby RentSmart assumes the risk of default on payments under the leases by customers. In order to prudently manage the assumption of this risk, the Group records an upfront provision to cover whole life expected bad debts on leases under the STB funding arrangement.

The arrangements with STB under the STB Operating Agreement are also supported (among others) by security granted by RentSmart to STB over rental collections accounts and by the STB TA Guarantee.

### **STB Invoice Discounting Agreement**

In addition to the STB Operating Agreement detailed above, the Group has recently also entered into the STB Invoice Discounting Agreement which will provide funding up to a limit of £20 million for the leases which it expects to be written under the new contract entered into with Carphone Warehouse. The funding will be available for a minimum period of 36 months and the arrangement can then be terminated once 6 months' notice is given by one party to the other party. This funding is supported by guarantees and security from a number of the members of the Group.

### **Santander Facility Agreement**

The Group, through the Company's indirect subsidiary, TFSL, entered into a revolving credit facility agreement with Santander in December 2014. Under this arrangement, Santander has made up to £10 million available to the Group (which includes the funding of approximately 50% of the Upgrade Anytime leases). In FY16, approximately 48% of Upgrade Anytime leases were funded by Santander with the remainder financed by STB. As at 30 June 2016, approximately £3.6 million of the £10 million facility had been utilised by TFSL. This facility is

due to continue until at least May 2018 and, pursuant to its terms, will continue thereafter until (i) three months after one of the parties serves a notice to terminate or (ii) a termination event under the Santander Facility Agreement occurs.

The Santander facility is an on-balance sheet facility and is recognised as a liability. Receivables from leases funded by Santander are recognised as assets on the Group's balance sheet, with monthly repayments received from the customer including a capital element used to pay down the outstanding receivable balance held on the Group's balance sheet. As opposed to brokerage income as per the STB Operating Agreement, the Group generates income by receiving lease finance income on a monthly basis from customers over the lifetime of the lease.

The arrangements under the Santander Facility Agreement are supported by (amongst other agreements) certain guarantees and security provided by TSEL, TFSL, and RentSmart and by the Santander TA Guarantee.

#### **4.6 Generation of revenue**

The Group's revenue model provides the Group with several income streams which the Directors believe have attractive profit margins. Revenue recognition depends on whether the equipment is funded by STB (and whether the equipment is funded under the STB Operating Agreement or the STB Invoice Discounting Agreement) or Santander. Deals which are funded by the STB Operating Agreement are recognised up-front as brokerage income, whilst deals funded by the Santander Facility Agreement or the STB Invoice Discounting Agreement are entered as lease finance assets on the Group's balance sheet and monthly lease finance income is recognised in the Group's income statements.

##### **Brokerage fee income**

For SmartPlan and Upgrade Everytime Products funded by STB, RentSmart receives a brokerage fee. STB pays a brokerage fee on a weekly basis to RentSmart as consideration for its role as agent of STB and reimburses the invoice price in relation to each lease which RentSmart has facilitated the previous week. Brokerage fee income is calculated as the present value of the future minimum payments on the lease discounted at a defined rate per product (which is updated on a monthly basis to reflect market interest rates), less the invoice price of the product (net of the initial payment from the customer to Dixons Retail). For Upgrade Anytime leases funded by STB, Dixons Retail pays RentSmart a subsidy towards the invoice price of the equipment leased.

Direct costs associated with the leases funded by STB include (i) a rebate to Dixons Retail for originating SmartPlan leases; (ii) sales incentives, such as cashback, to customers; (iii) marketing costs; (iv) direct employee costs which mainly consist of the costs of the B2B business development team; and (v) the costs associated with credit searches and underwriting.

##### **Lease finance income**

The Group receives lease finance income from Upgrade Anytime leases which are funded by Santander. Unlike the arrangement with STB (under the STB Operating Agreement) for SmartPlan and Upgrade Everytime, the Group collects and retains monthly lease payments from customers. In FY16, lease finance income generated approximately £1 million. For Upgrade Anytime Products funded by Santander, Dixons Retail pays RentSmart a subsidy towards the invoice price of the equipment leased.

Incremental direct costs associated with Santander funded leases are capitalised into the lease and are therefore spread out through the life of the lease by reducing the lease income.

For Upgrade Everytime leases funded by STB (under the STB Invoice Discounting Agreement), the Group will receive lease income from customers which may be subsidised by Carphone Warehouse, and is expected to be recognised on a monthly basis when receivable.

##### **Insurance income**

Lessees of non-regulated B2B leases are obliged to insure the leased equipment at their own cost. The Group has an arrangement with LLIS and receives commission for cross-selling the relevant policies to customers, which is paid to the Group upfront. Historically 80% to 90% of

customers enrol in the LLIS insurance policy and approximately 60% choose to maintain such cover through the term of their lease with the remaining customers organising their own insurance. In FY16, approximately £1.4 million of insurance brokerage income was generated (approximately £1.3 million from SmartPlan and approximately £80,000 from TBL). Lessees of regulated B2B leases insure the equipment themselves, or, if they fail to provide proof of such insurance within 30 days, they pay a higher rental amount to reflect the fact that the Group is at risk for uninsured equipment. It is also commercially agreed (and currently operated in practice, although not yet documented between STB and RentSmart) that where lessees of regulated B2B leases do not have adequate insurance for the lease equipment, (i) the rent payable by those lessees is increased to reflect the risk of damage or loss to the rented equipment and (ii) the Group receives a risk transfer fee from STB (the funding bank for the B2B leases), which increases the amount of the brokerage fee income from STB. It is proposed that an amendment will be made to the STB Operating Agreement to reflect this commercial arrangement.

### **Inertia income**

A significant source of revenue for the Group is inertia income, which represents revenue generated beyond the initial term of the lease.

At the end of the initial period, the lessee can either continue renting the equipment at the same monthly amount for a certain period, return the equipment to the Group, in the case of SmartPlan only, make an offer to purchase the equipment at market value from the Group, or, in the case of Upgrade Everytime only, pay an additional monthly rental amount to the Group and retain the device for a further 10 years, after which the device must be returned.

*Extended rental income:* The Group currently receives significant revenue from customers who retain the equipment after the initial lease term and continue making lease payments. In relation to Upgrade Anytime, leases can be extended for up to 4 months, or 3 months depending on whether the lease was written before or after June 2016, after the end of the initial lease term and such additional monthly payments enable the customer to retain the equipment for a further 10 years, after which the equipment must be returned. B2B leases can continue indefinitely, but the customer ceases to pay monthly rental income 5 years after the end of the initial term. Historically, this income stream has proved to be highly predictable. In FY16, the Group received approximately £3 million from extended rental income.

*End of lease asset sales:* The Group also generates revenue from sales of equipment after customers return the equipment at the end of the lease term. In the case of B2C leases, sales are made to third parties and in the case of B2B leases, sales are made to third parties or (if approved by the Group) the customer (in the case of SmartPlan). Although leases are priced at zero residual value for the customer, in practice the equipment carries a residual value at the end of the initial term (or when a customer chooses to upgrade). In FY16, the Group received £1.2 million from the sale of equipment at the end of the lease term.

### **Other income**

The Group also receives additional income from: (i) a fee rate of 3% per annum, which is payable monthly, on the STB CSB which supports the STB CDS; and (ii) additional fees charged by RentSmart to customers whom have either not paid their monthly repayments on time, or have missed several of these monthly repayments altogether<sup>4</sup>. These other streams generated an aggregate of approximately £300,000 in FY16.

## **4.7 Bad debt provisioning**

The Group recognises bad debt provisions as required, due to the credit risks associated with leases funded by either STB under the STB Operating Agreement (an off-balance sheet arrangement) or Santander (an on-balance sheet facility).

For leases funded through the STB facility under the STB Operating Agreement, a whole-life provision is calculated at inception of the lease based on historical trends. This is recognised against income from the upfront brokerage fee income received from STB for the Group originating the lease.

<sup>4</sup> This income stream has historically accounted for a small proportion of the Group's total income, and its main purpose is instead to act as a deterrent for the Group's customers renegeing on the terms of their lease agreements.

Unlike the deals funded by STB under the STB Operating Agreement, a bad debt provision is not calculated at the inception of a Santander funded lease but bad debts are instead accounted for as they arise.

Bad debts will also be accounted for in relation to the funding arrangements with STB under the STB Invoice Discounting Agreement for the Upgrade Everytime leases.

The Directors believe that the Group has and continues to experience relatively low bad debt levels on its Products.

#### **4.8 Collections, arrears management and recoveries**

The Group monitors cash collections and the level of customer arrears. The Group has a dedicated collections department and also has an external agency for debt collection services in respect of late payments that have gone beyond 61 days in arrears. The external agency for debt collection charges a flat percentage fee, plus legal costs, to the Group. For deals funded by STB under the STB Operating Agreement, after an account is 91 days in arrears balances are bought back by the Group from STB.

See section 4.9 of part 1 of this document for more detail on the Group's approach to handling arrears.

#### **4.9 Regulatory and compliance background**

The Group entered the UK market by incorporating RentSmart as a joint venture with HBOS plc. In light of its banking heritage, RentSmart adopted rigorous underwriting and compliance systems from the outset.

##### **FCA permissions**

RentSmart (one of the Company's indirect subsidiaries) submitted an application to the FCA for full authorisation for the following permissions in December 2014, an authorisation which was received on 16 July 2015:

- agreeing to carry on a regulated activity
- credit broking
- debt adjusting
- debt counselling
- debt collecting
- debt administration
- entering into a Regulated Consumer Hire Agreement as owner
- exercising or having the right to exercise the owner's rights and duties under a regulated Consumer Hire Agreement
- arranging (bringing about) deals in investments – non investment Insurance contracts (Commercial customers)
- making arrangement with a view to transactions in investments – non investment Insurance contracts (Commercial)

RentSmart submitted an application to vary its FCA permissions in August 2015 to enable it to enter into regulated credit agreements as a lender and received approval from the FCA on 28 June 2016.

In addition, both RentSmart and TISA (the Company's subsidiaries) are authorised to offer or sell insurance products and services as insurance mediation firms, and have the following permissions:

- agreeing to carry on a regulated activity (limited to carrying on regulated activities);
- arranging (bringing about) deals in investment for commercial customers in relation to non-investment insurance contracts; and
- making arrangements with a view to transactions in investments for commercial customers in relation to non-investment insurance contracts.

## **Change in control of FCA authorised firms**

Under FSMA, any person proposing to acquire “control” of an FCA authorised firm must give prior notification to the FCA of their intention to do so. It is a criminal offence to acquire control without prior FCA approval. RentSmart and TISA are both FCA authorised firms. For such firms, the acquisition of control is defined as acquiring 20% or more of the shares or voting power of the regulated firm or one of its parent undertakings. However, control will also be obtained where a purchaser acquires shares or voting power in a regulated firm or its parent that, as a result, enables the purchaser to ‘exercise significant influence over the management of the firm in question. The acquisition of 20% or more of the shares in the Company (or the ability to otherwise exercise significant influence) will, therefore, require prior FCA approval. It is prospective investors’ responsibility to conduct a change in control analysis and apply to the FCA for approval if necessary. The FCA has 60 working days from acknowledgement of receipt of a completed application to consider that person’s application to acquire “control” (though that period may be extended by a further 30 working day period, by the regulator).

## **Consumer credit legislation**

The FCA is the current regulatory body for the UK consumer credit industry, having taken over from the OFT in April 2014. The current UK regulatory framework for consumer credit activities is based on a combination of FSMA and its secondary legislation, provisions in the CCAs and the FCA Rules.

RentSmart obtained full authorisation in July 2015 for activities relating to entering into hire agreements and credit related activities, and became subject to the applicable FCA Rules, as well as the CCAs.

As part of its growth strategy, the Group is planning to enter the consumer credit market by offering consumer finance products to consumers and, potentially in the future, to businesses. This required RentSmart to apply for additional permissions, specifically:

- entering into a regulated credit agreement as lender (excluding high-cost short-term credit, bill of sale agreements, and home collected credit agreements); and
- exercising, or having the right to exercise, the lender’s rights and duties under a regulated credit agreement (including high-cost short-term credit, bill of sale agreements, and home collected credit agreements).

## **Handling arrears**

The Group has a dedicated collections department responsible for arrears management across the Group’s lease portfolios.

If a customer’s account falls into arrears, the Group’s collections team will attempt to contact the customer by phone one working day after a payment has failed. Letters are also sent to the customer in line with consumer credit legislation. If the collections team cannot contact the customer, further calls are made and a text message is sent to the customer.

Debt collection is managed internally whilst the customer remains less than 61 days in arrears, allowing the Group to ensure that vulnerable customers are identified and resolutions agreed, where appropriate.

After 61 days, if the internal collections team is unable to work with the customer to recover any due payments, the agreement is passed to a DCA. The Group only works with authorised DCAs, in seeking to ensure that any DCA used is fully compliant with the FCA Rules and has the processes in place to confirm and evidence this.

## **Insurance**

All B2B lessees must keep equipment insured against loss, fire, theft, flood and accidental damage. Under the B2B Products, such customers are required to produce evidence of insurance and where the customer fails to do so, in the case of lessees of non-regulated B2B leases, the Group has the right to arrange to insure the equipment.

Should lessees of non-regulated B2B leases fail to provide the Group with proof of insurance, or respond to any subsequent correspondence from the Group, a suitable insurance policy is automatically placed upon the leased equipment by the Group’s partner, LLIS. The Group’s

equipment insurance product is administered by TISA and RentSmart. The insurance is underwritten by Great American International Insurance Ltd. Lessees of regulated B2B leases insure the equipment themselves, or pay a higher rental amount to reflect the fact that the Group is at risk for uninsured equipment.

TISA and RentSmart are both FCA authorised in respect of insurance mediation activity.

If an insured B2B customer proves that they have their own insurance for the hired equipment, RentSmart/TISA instructs LLIS to cancel the equipment insurance. A refund will also be made if there has been an overlap in the insurance sourced by the Group and the customer-sourced insurance product.

### **Handling complaints**

RentSmart and TISA handle all complaints related to the activities carried out by RentSmart and TISA. LLIS handle all complaints that are related to tasks carried out by LLIS. The Group has a complaints handling procedure which sets out activities undertaken at each stage of the complaint handling process. These procedures have been designed to ensure that complaints are dealt with in a prompt manner and achieve a fair outcome for the customer.

## **4.10 Disaster recovery and business continuity**

The Group has a structured disaster recovery process to ensure business continuity. The Group's IT system utilises a mixture of physical servers and cloud based storage systems. The server infrastructure is fully virtualised using VMware ESX hypervisors and HP SAN storage. Additional IBM storage serves as a 'backup to disk' system, allowing for 'instant recovery' provided by Veeam backup software. The Group is served by dual internet feeds provided by two different providers and is load balanced to ensure continuity of service in the event of external network failure.

All production systems are replicated to the cloud server produced by Sungard's "recover to cloud" product. Sungard also provides a physical location for staff to relocate to during an incident, which can accommodate up to 10 members of staff. The production servers are replicated asynchronously to Sungard facilities with a contractual recovery time objective of 4 hours and a recovery point objective of 15 minutes. To invoke disaster recovery, the replicated systems are simply powered on at the Sungard facility.

## **4.11 Intellectual Property**

The SmartCheck code base, including its associated modules such as the mobile finance solution module, the online basket solution module and the multi account system module, is currently owned by the Company. Additionally, certain trademarks used by the Group are registered in the Company's name.

## **4.12 Head office**

Whilst the Group's principal place of business is in the UK, the Company has its registered office in Australia at Suite 5, 531 Hay Street, Subiaco, WA 6008, Australia.

The Group operates from two office premises in the UK, and has its regional head office at Oakland House (7th Floor), Talbot Road, Manchester, M16 0PQ and its secondary office located at Regus Office, Clarendon Road, Watford, WD17 1DU (where the Group employs staff who fulfil management, finance, risk, compliance, customer services, collections, IT, marketing and business development roles). As at 30 June 2016, the Group had 83 employees (81 based in the UK and 2 in Australia).

## **4.13 Relationship with Ned Montarello**

The Directors recognise that, since Ned Montarello will retain a significant interest in the Company on Admission, it is important to establish a framework within which the Company may carry out its operations with a degree of independence from Ned Montarello. Please see section 16.3 of part 4 for further information about the relationship between the Company and Ned Montarello and the terms of the Relationship Agreement.

## 5 Market

### 5.1 The point-of-sale finance market

The Directors believe that the market for point-of-sale finance in the retail sector has long-term, high-growth potential.

Point-of-sale leasing remains a subset of the overall consumer and SME market places. As is most notable in the automobile sector, some consumers and businesses are turning away from outright purchases, or traditional asset finance, and turning towards leasing. The Directors believe that leasing in other sectors, such as in the technology sector, will become more common and that a “usage vs ownership” trend is emerging, with people increasingly leasing or hiring (whether it be in relation to houses, cars, mobile phones or electronic equipment) as opposed to choosing outright ownership. In a survey concluded in January 2015, consisting of 2,000 interviews from a national representative sample (who were made available to the Group by OnePoll (a third party market research provider)), 56% of participants responded positively to the prospect of a consumer leasing proposition, and more than half of respondents found the idea of leasing appealing across all suggested product categories. Leasing appealed to most groups and across all sectors, but in particular the younger age cohorts in socioeconomic groups A, B, C1 and C2<sup>5</sup> (labelled “Generation Rent” by the Directors). The Directors believe that these socioeconomic groups are motivated by having access to the latest technology and by flexibility.

### 5.2 High-volume small-ticket

The Directors believe that manufacturers and retailers are increasingly likely to offer consumers the choice of leasing high-volume small-ticket consumer goods. This follows a trend which can be seen in the United States and the UK, where, by way of example, the mobile phone market appears to be moving towards “SIM only” tariffs, and hence distributors and manufacturers are entering the market with “phone for life” propositions, with some major network operators in the United States adopting leasing as a means to support long-term customer relationships and Apple launching the ‘iPhone Upgrade Programme’ in the UK.

### 5.3 Competition

Whilst the Directors are not aware of any competition for an equivalent point-of-sale high-volume small-ticket lease finance product, and believe that no other company or business offers point-of-sale lease finance in relation to a similar range of electronic equipment to consumers, the competitive landscape extends to other forms of point-of-sale finance such as traditional loan products, ‘interest free’ finance and store cards.

The Directors believe that the Group’s principal competitors who provide retail point-of-sale consumer finance (often on a ‘white label basis’) are as follows: Barclays, V12 Retail Finance, Hitachi Capital, Ikano, Close Brothers Retail Finance and LaSer UK Retail Finance.

### 5.4 Recent trends

Since 30 June 2016, the Group has seen Apple begin to offer the ‘iPhone Upgrade Programme’ in the UK, which follows Samsung’s decision to launch an upgrade programme in the UK earlier in 2016. The Directors believe that this demonstrates further evidence of the emerging “usage vs ownership” trend. The Group has also contributed to this trend by signing the five year exclusive agreement with Carphone Warehouse in relation to Upgrade Everytime.

## 6 Group Strategy

### 6.1 Overview

The Directors believe its shorter term and medium term plan will position the Group to capitalise on its scalable and innovative technology to drive new customer acquisitions, additional repeat customer business and increased multiple orders.

<sup>5</sup> The socioeconomic categories apply to Household Reference Persons aged 16 to 64. Categories A and B are defined as persons with higher and intermediate managerial, administrative and professional occupations. Category 1 is defined as persons with supervisory, clerical and junior managerial or administrative professional occupations. Category C2 describes persons with skilled manual operations.

The Group intends to execute its growth strategy across the following terms:

- Current – Organic growth through existing retail partners, including Dixons Retail and Carphone Warehouse;
- Shorter term – Expansion into markets and sectors beyond the coverage of Dixons Retail; and
- Medium term – Strategically aligned opportunities.

## 6.2 Current – Organic growth through existing retail partners

The Group expects to drive additional incremental sales through its existing exclusive partnership with Dixons Retail, one of Europe's largest electrical and telecommunications retailers.

### **Incremental sales through greater awareness of the Products and provision of Products on a wider range of electronic goods**

The Directors expect new customers through greater customer awareness of the Group's Products, achieved through additional in-store and online marketing promotions. The Directors also expect to achieve additional sales penetration through the recent launch of the Group's new customer account with Dixons Retail and the upcoming launch of the mobile app (which the Directors expect will be in 2017), which will allow customers to transact multiple times from just a single application. The Directors believe that this will provide customers with additional cross-selling opportunities and may encourage customers to make multiple purchases.

Dixons Retail sells ranges of equipment that cannot currently be acquired through the use of a Product, such as white goods, photographic equipment and small domestic appliances. The Group's long-standing relationship with Dixons Retail provides it with a good opportunity to increase the amount of equipment offered by Dixons Retail which can be acquired using a Product.

### **Integrated online basket**

The Group's integrated online basket tool (which went live on the PC World Business website in July 2016 and has been live on the Wex Photographic website since 2012) allows the Group's retail partners' customers to apply for a lease without the need to leave the retailers' existing web portal, providing a seamless and efficient application process.

### **Expansion into mobile phones**

The Group has identified mobile phone leasing as a key target for growth. In the UK, 91.5 million live mobile subscriptions were in existence by the end of 2015 and 93% of adults owned or used a mobile phone. The mobile phone market is transforming, with SIM only tariffs becoming increasingly popular, and some major operators in the US adopting leasing as a means to support long-term customer relationships. Some manufacturers (such as Apple and Samsung) have launched their own upgrade programmes, which allows customers to get the latest phone every year and shortens replacement cycles. The Directors foresee a similar trend emerging in the UK (Apple and Samsung have already launched upgrade programmes in the UK) and expect the exclusive contractual arrangement with Carphone Warehouse to contribute to the emergence of this new trend. Leasing aligns well with new devices coming to market every year, enabling customers to obtain the latest model without incurring significant upfront cost. A handset lease and "SIM only" tariff decouples the customer from an extended mobile network contract and gives customers the flexibility to change network or operator at any time.

As part of the new contract with Carphone Warehouse, the Group is targeting 50,000 new customers in the first 12 months of the launch of Upgrade Everytime and an additional 90,000 new customers during the second 12 months of Upgrade Everytime's launch. The Group has up to £20 million of approved financing facilities (under the STB Invoice Discounting Agreement) which can be used to fund leases written under Upgrade Everytime. In order to meet the Group's stated sales targets for Upgrade Everytime, the Group will need to put in place additional funding facilities, including if targeted volumes are met during the second

12 months of Upgrade Everytime's launch. The Group has not yet sought to put in place additional facilities in advance, as the Directors believe it is better for the business to expand funding over time rather than maintaining large unutilised facilities.

### **6.3 Shorter term – Expansion into new markets and sectors**

The Directors believe that the appetite of customers to lease extends to markets beyond the coverage of the arrangement with Dixons Retail. The Directors have identified specific opportunities by which to extend the Group's offering into some of these markets.

The Directors' focus is on identifying sectors and markets that offer similar customer replacement cycles, ATVs and residual values and the ability for the Group to rapidly gain market share. The Directors believe that examples of such target sectors include high-end photographic equipment and catering equipment.

The Group's customers typically only spend approximately 28% of the total credit available to them on a single purchase. The Directors estimate that this results in approximately £120 million worth of credit being initially pre-approved but not accessed by customers. The Directors expect to achieve additional sales through the launch of the mobile app which the Directors expect will launch in 2017, which will allow customers to transact multiple times from just one single application. The Directors believe that this will provide customers with additional cross-selling opportunities and may encourage customers to make multiple purchases, to further utilise their pre-approved but not accessed credit limit.

### **6.4 Medium term – Strategically aligned opportunities**

#### **Expansion of the Group's consumer finance proposition**

The Group intends to broaden its consumer finance proposition to consumer credit, so that it can offer restricted use, fixed sum loans to customers to finance the purchase of assets from retail partners. As part of the Group's growth strategy, the Group is considering offering a flexible financing option to certain B2B customers.

RentSmart submitted an application to vary its FCA permissions in August 2015 to enable it to enter into regulated credit agreements as a lender and received approval from the FCA on 28 June 2016.

#### **Potential to licence the Group's intellectual property**

In order to further leverage the significant investment that the Group has made in SmartCheck, the Group is currently evaluating opportunities to offer the licencing of the platform or 'white label' solution to non-competitive market segments.

#### **Additional expansion opportunities**

In addition to the Group's core strategy, the Group has identified several additional longer term, prospective growth markets within the wider consumer credit market. These include areas such as insurance premium and professional fee finance. Furthermore, the Group's growth strategy is primarily focused on UK-only growth, with any international expansion representing an additional opportunity.

7 Summary Financial Information

	12m to 30-Jun-16 £,000	12m to 30-Jun-15 £,000	6m to 30-Jun-14 £,000	12m to 31-Dec-13 £,000
<b>Continuing operations</b>				
Revenue	11,813	11,707	5,570	10,367
Other revenue	1,459	1,537	713	1,360
<b>Total revenue</b>	<b>13,272</b>	<b>13,244</b>	<b>6,283</b>	<b>11,727</b>
Customer acquisition costs	(1,561)	(1,688)	(1,133)	(2,264)
Cost of inertia asset realised	(2,099)	(2,712)	(953)	(798)
Other operating expenses	(5,826)	(5,753)	(2,718)	(6,148)
Depreciation and amortisation	(704)	(344)	(151)	(286)
Impairment losses	(390)	(271)	(85)	(158)
Non-operating strategic review and advisory expenses	(1,846)	—	—	—
<b>Profit before tax</b>	<b>846</b>	<b>2,476</b>	<b>1,243</b>	<b>2,073</b>
Income tax expense	(545)	(624)	(393)	(466)
<b>Profit after tax from continuing operations</b>	<b>301</b>	<b>1,852</b>	<b>850</b>	<b>1,607</b>
<b>Profit/(loss) from discontinued operation, net of tax</b>	—	—	5,365	(178)
<b>Profit after tax</b>	<b>301</b>	<b>1,852</b>	<b>6,215</b>	<b>1,429</b>

	12m to 30-Jun-16 £,000	12m to 30-Jun-15 £,000	6m to 30- Jun-14 £,000	12m to 31-Dec-13 £,000
<b>New originations (settled value)</b>				
Smartplan	6,674	6,421	2,787	4,962
Upgrade Anytime	9,411	12,399	2,488	—
Infinity	—	—	1,978	9,272
TBL	433	1,215	853	1,657
<b>Total</b>	<b>16,518</b>	<b>20,035</b>	<b>8,106</b>	<b>15,891</b>

	as at 30-Jun-16 £,000	as at 30-Jun-15 £,000	as at 30-Jun-14 £,000	as at 31-Dec-13 £,000
<b>Lease book</b>				
<b>STB lease receivable (off balance sheet)</b>				
Smartplan	13,922	13,392	12,484	12,592
Infinity	—	1,435	8,757	12,931
Upgrade Anytime	5,562	8,080	714	—
TBL	1,415	2,584	2,163	1,431
<b>Total</b>	<b>20,899</b>	<b>25,491</b>	<b>24,118</b>	<b>26,954</b>

<b>Santander lease receivable (on balance sheet)</b>				
Upgrade Anytime	4,321	2,277	—	—
<b>Total</b>	<b>4,321</b>	<b>2,277</b>	<b>—</b>	<b>—</b>

The Group has an established and profitable business and a long-standing contractual relationship with Dixons Retail (with the Group also having recently established a new relationship with Carphone Warehouse). The lease portfolio as at 30 June 2016 comprised approximately 59,000 live leases. Despite the volume of new leases having fluctuated over the historical period, following the re-design of Infinity and its re-branding to Upgrade Anytime in 2014, and the lower level of repeat business in 2016, the Group has increased revenue from approximately £11.7 million in the 12 months to 31 December 2013 to approximately £13.3 million in the 12 months to 30 June 2016, primarily as a result of the increase in volumes of the higher margin SmartPlan Product. The Group has also recently (on 15 November 2016) launched its new mobile phone lease finance product as part of an exclusive agreement with Carphone Warehouse, which the Directors believe will generate new business volumes and customers.

The Group also benefits from repeat business which was 4.7% of settled value in the year to 30 June 2013, 24.3% in the year to 30 June 2015 and 15.5% in the year to 30 June 2016. The lower percentage of repeat volumes in the year to 30 June 2016 was a result of fewer lease agreements reaching maturity in that year (a low volume of Infinity leases were written in 2014 prior to the launch of Upgrade Anytime). Other revenue comprises commission from sales of insurance products to B2B customers which generated approximately £1.5 million of revenue in the 12 months to 30 June 2016 and approximately £1.5 million in the year to 30 June 2015. Another component of revenue is end of lease asset sales which generated approximately £1.2 million of revenue in the 12 months to 30 June 2016 and approximately £1.7 million in the 12 months to 30 June 2015.

The Group has financing arrangements with two finance providers, STB (in relation to the STB Operating Agreement and the STB Invoice Discounting Agreement) and Santander. Santander was introduced as a new funder in December 2014 and leases funded by Santander have grown from approximately £2.3m as at 30 June 2015 to approximately £4.3 million as at 30 June 2016. The Group continues to seek to expand its funding to support expected volumes in its Products.

The Group's Group Operating NPAT (before non-operating strategic review and advisory expenses) for the year to 30 June 2016 was £2.1 million, representing an increase of 16% on the prior year, benefitting from reduced funding costs and improvements in bad debt performance on prior years, offset by lower new business volumes on the Group's main Products. Overall, lease receivables (both on and off balance sheet) reduced by 9% over the same period with the Group having approximately 59,000 active customers as at 30 June 2016.

Impairment losses have been steady with bad debt showing a general improvement year on year for lease cohorts prior to 2015. Lease cohorts from 2015 and 2016 are performing broadly in line with expectation, reflecting an upward trend following the amendments to the credit matrices in 2015 to approve more customers.

## **8 Current Trading and Post Balance Sheet Events**

- 8.1 Since 30 June 2016, the Company has made further investment in people, systems and processes to support the launch of Upgrade Everytime in conjunction with Carphone Warehouse. Although the business continued to benefit from reduced funding costs and the improvements in bad debt performance on prior years, albeit to a lesser extent to previous year's results, overall business volumes have remained suppressed with the monthly average settled value being down approximately 6% on the six months to 30 June 2016, reflecting the continued challenging post-Brexit market conditions in computing and technology, with little new technology coming to the market in this period together with the delayed implementation of improved in store processes and marketing initiatives.
- 8.2 As set out in the ASX announcement on 25 July 2016, the Company entered into an agreement to undertake a placement of 20,000,000 Ordinary Shares to a fund managed by Henderson Global Investors Limited at a price of 25 pence per share (equivalent to 42 cents per share). The placing raised gross proceeds of £5 million, for working capital purposes. The Company also announced the buy back of up to 10 million Ordinary Shares from existing Shareholders by way of an off-market tender buy back at a price range of 38 cents to 55 cents per share on 25 July 2016 to provide Shareholders with an opportunity to sell their

Ordinary Shares prior to Admission and delisting from the ASX. The buy back closed on 4 November 2016 and, under the buy back, the Company ultimately bought back and cancelled 9,999,178 Ordinary Shares at a price of 38 cents per Ordinary Share.

- 8.3 The Directors believe the investment by Henderson Global Investors Limited and the buy back has increased the cash resources available to the Group and introduced a significant and highly regarded new Shareholder to the Company's register.

## 9 Directors and Senior Management

### 9.1 Directors

The Board at Admission will comprise:

**Ned Montarello** (Executive Chairman) – Ned has over 30 years of experience in the finance industry. Ned founded the Group in 1996, previously acted as Chief Executive Officer and successfully developed the business resulting in the Company's initial public offering on the ASX in 2007. Ned set up the UK operation of the Group in 2002 and was the driving force behind the expansion of the business into the European markets. Ned received the Telstra Australian Government's – Ernst & Young Australian Entrepreneur of the Year Award in 1998.

**Fernando de Vicente** (Chief Executive Officer) – Fernando was appointed to the Board on 7 April 2010, and has been Chief Executive Officer of the Group since January 2015, having previously been a Non-Executive Director (from April 2010) and a member of the Audit and Risk Committee (from August 2013). Prior to joining the Group, Fernando worked for Dixons Retail Plc, initially as Chief Financial Officer of the Spanish subsidiary and then eight years in other roles including International Managing Director, and was a member of the Group Executive Committee with responsibility for Dixons Retail Plc's central and southern European operations. Fernando was also previously the Executive Chairman of BodyBell, a speciality retailer in Spain.

**Gary Halton** (Chief Financial Officer) – Gary will be appointed to the Board on Admission and has been Chief Financial Officer of the Group since 2008 when he joined the Group. Between October 2012 and January 2014, Gary acted as interim Managing Director of the Group. Prior to joining the Group, Gary held several senior positions, including Head of Finance Services and Head of Group Taxation, with De Vere Group Plc. Gary is a qualified chartered accountant and a chartered tax advisor, with over 20 years post-qualification experience, having qualified with Ernst & Young, and then a subsequent senior manager role with PricewaterhouseCoopers.

**Keith Jones** (Non-Executive Director and Deputy Chairman) – Keith was appointed to the Board on 24 May 2013 and has previously acted as interim Chief Executive Officer. Keith is currently the Group Strategy and Development Director. From Admission, Keith will become a Non-Executive Director and Deputy Chairman of the Company. Keith has 30 years of retail experience in Europe, including roles as Chief Executive Officer of JJB Sports Plc, Group Retail Director of Dixons Retail Plc and Managing Director of PC World Stores Group. Whilst at Dixons Retail Plc, Keith was a member of the Group Executive Committee and was responsible for all UK and Ireland brands including PC World and Currys. Whilst at PC World Stores Group, Keith was responsible for stores in the UK, Spain, France, Italy and the Nordics in addition to group service operations. Keith has also recently been appointed as Chief Executive Officer of Sprint Connect, LLC a joint venture between Sprint and Dixons Carphone.

**Peter Gammell** (Independent Non-Executive Director) – Peter was appointed to the Board on 23 May 2016 as an Independent Non-Executive Director and is Chair of the Remuneration and Nomination Committee. Peter is also a Non-Executive Director of Seven West Media, was Managing Director and Chief Executive Officer of Seven Group Holdings (2010-2013) and was previously Managing Director of Australian Capital Equity Pty Ltd (1989-2010). Peter is also Chairman of Octet Finance and former Chairman of Scottish Pacific Business Finance. Between 1984 and 1989 Peter was a director of Castle Cairn (Financial Services) Ltd an investment management company based in Edinburgh and a member of IMRO. Also during this time he was a director of Cairn Energy Management Limited and Cairn Energy Plc.

**David Adams** (Independent Non-Executive Director and Chair of the Audit Committee) – David will be appointed to the Board on Admission and has over 30 years of experience and has previously held executive roles including Chief Financial Officer and Deputy Chief

Executive Officer of House of Fraser Plc and non-executive roles including Jessops Plc and Moss Bros Plc. David's current appointments include serving as a Non-Executive Director and Chair of Audit Committee of Halfords plc, Chairman of Conviviality plc, a drinks wholesale and distribution franchised business, and Senior Independent Director, Non-Executive Director and Chair of Audit Committee of Hornby plc, a model railway manufacturer.

**Roger McDowell** (Independent Non-Executive Director) – Roger will be appointed to the Board on Admission and has 18 years of experience in the public company environment, having led the Oliver Ashworth Group through a main market initial public offering and a subsequent sale. Roger's current roles include serving as Chairman of Avingtrans plc, Senior Independent Director & Audit Chair at Servelec plc, Non-Executive Director of Premier Technical Services Group plc; D4t4 Solutions plc; Swallowfield plc; and Proteome Sciences plc. Roger will be a member of the Audit and Risk and Remuneration and Nomination Committees.

## 9.2 Senior Managers

In addition the Group has the following Senior Managers:

**David Twigg** (Chief Operations Officer) – David joined the Group in 2014. Prior to this he worked as the General Manager of Financial Services at Home Retail Group Plc where he was responsible for the retail credit (store card and point-of-sale finance) and warranties businesses. David has also served as Director of Home Retail Group Card Services and Director of Home Retail Group Insurance Services. David previously worked at Barclays for 10 years and held senior roles within its Risk and Corporate Finance division.

**John Taylor** (Marketing Director) – Prior to joining the Group in November 2010, John served as Head of Retail and Consumer Brands/EMEA for Techtronic Industries. John has 20 years of experience in multi-brand and multi-sector B2B and B2C, developing multi-channel communications for new and existing products.

**Stuart Zissman** (Dixons Carphone Account Director) – Stuart joined the Group in June 2014 as the Group's primary account director. Stuart is responsible for product and portfolio development and implementation and management of the field team. He has 20 years of experience across the retail industry, with specialities which include commercial analysis and data interpretation. Stuart has extensive experience in commercial analysis, data interpretation, interrogation and statistical based forecast and analysis.

**Milko Radotic** (Business Development Director) – Milko has recently returned to the Group, after spending the past four years as a Chief Executive Officer in the Fintech and Technology industries. Milko previously spent seven years with the Group, where he held the position of general manager for Australasia and also held several international management positions including senior vice president, sales and operations in relation to the Group's operation in America and managing director, ThinkSmart Europe. Prior to joining the Group, Milko built up extensive experience in sales and business development having held senior management positions within Fortune-500 companies across the US, Canada and the UK.

**Kelly Jackson** (Head of Compliance) – Since joining the Group in February 2003, Kelly has worked within a number of different departments. Kelly recently completed RentSmart's FCA application for consumer credit permissions, which was granted in July 2015 (and subsequently varied in June 2016) and led and managed other projects including the Dixons Retail point-of-sale integration, design and implementation of the electronic signature process.

**Howard Price** (Head of Credit Risk) – Howard joined the Group in December 2014. Prior to this, Howard worked as interim Credit Risk Director at Aldermore Bank Plc and Head of Credit Risk at Skipton Building Society.

## 10 Share Plans

### 10.1 Long Term Incentive Plan

In May 2012 the Company adopted a Long Term Incentive Plan ("LTIP") for executives and key staff. The LTIP is a loan-funded share plan under which, broadly, the Board can invite participants to take up the opportunity to be issued Ordinary Shares ("Plan Shares").

No consideration is payable by participants in the LTIP at the time Plan Shares are issued. Instead, the purchase price for the Plan Shares is 100% funded by a loan provided by the Company. The Plan Shares are issued to and held by a trustee on trust for the participants until the Plan Shares vest and the loan is repaid, or beyond that point at the election of the participants.

Loans under the LTIP are limited recourse, in that participants' liability is limited to the lesser of the outstanding loan value and the value of the Ordinary Shares. The loans are interest free. They are repayable in full on the earlier of 5 years after the date of issue, and the date on which the participant disposes of their Plan Shares.

The Plan Shares vest subject to the continued employment of participants for 3 years from the date of issue and subject to the satisfaction of any performance conditions attached to the Plan Shares by the Board at the time of issue. Under the rules of the LTIP, the Board also has the discretion to determine that unvested Plan Shares vest where a participant's employment ceases in certain circumstances before the expiry of the 3 year period.

The LTIP was intended for participation by Australian-based executives only. Accordingly, the only Plan Shares currently on issue are held by Ned Montarello, as set out in the table below and it is not currently intended that further Plan Shares will be issued given that, from Admission, all of the Company's executives (except for Ned Montarello) will be UK-based. The vesting of the Plan Shares held by Ned Montarello is conditional on the performance of the Ordinary Shares during the relevant performance period. If at any time during the relevant performance period the 30 day volume-weighted average price of the Company's shares exceeds the relevant target price, a percentage of the Plan Shares as set out below will vest at the end of the relevant performance period.

#### **Plan Shares held by Ned Montarello**

<b>Number of shares</b>	<b>Performance period</b>	<b>Target price for vesting</b>			<b>Issue price</b>
		<b>25%</b>	<b>25%</b>	<b>50%</b>	
1,000,000	04/07/13 – 04/03/17	\$0.3802	\$0.4889	\$0.5975	\$0.2652
500,000	18/09/14 – 18/09/17	\$0.5537	\$0.7119	\$0.8701	\$0.3620
250,000	Vested	—	—	—	\$0.1923

The target prices for the Plan Shares currently on issue are in Australian Dollars. Following Admission, for all Plan Shares in respect of which the target price has not yet been exceeded, the target prices will be converted to Pounds at the prevailing exchange rate as at the Admission Date.

#### **10.2 Executive Option Plan**

The Company has had in place since 2007 an Employee Share Option Plan ("ESO Plan") under which it may issue options ("Plan Options") to eligible participants. Eligible participants in the ESO Plan are employees or executive directors of the Group.

Plan Options may be issued with a corresponding exercise price and/or a fee for grant of the Plan Options. The Board determines the expiry date, conditions of exercise of the Plan Options and other terms and conditions at the time the Plan Options are granted. Plan Options may carry any conditions precedent to their exercise as may be determined by the Board, and, unless any such conditions are satisfied, the Company is not obliged to issue any shares in respect of the Plan Options to their holder.

Plan Options expire on the earliest of:

- their expiry date;
- their holder purporting to transfer them in a manner not in accordance with the ESO Plan;
- the Board determining that the participant has acted fraudulently, dishonestly or in breach of their obligations to the Company;
- the participant ceasing to be an eligible participant, except in the case of:

- the death of the participant, in which case their legal personal representatives may exercise the Plan Options at any time until they otherwise lapse (where no conditions were placed on the exercise of the Plan Options or the conditions had been met) or within one month of the date of death (where any condition placed on the exercise of the Plan Options had not been met); or
- the cessation of employment of the participant, in which case the Plan Options may be exercised within one month;
- the Company becoming the target of a successful takeover bid of a kind specified in the ESO Plan, in which case the Plan Options will lapse after 30 days from the date of a notice given for this purpose by the Board;
- any failure to meet a condition placed by the Board on the exercise of the Plan Options in the prescribed period; or
- the date 10 years after the Plan Options were granted.

Plan Options do not give their holders any right to participate in the issue of new securities by the Company, including as part of a bonus or rights issue, subject to the Board's discretion.

As at the date of this document there are 4,833,333 Plan Options currently on issue, as set out in the table below. The vesting of the Plan Options currently on issue is conditional on the performance of the Ordinary Shares during the relevant performance period. If at any time during the relevant performance period the volume-weighted average price of the Ordinary Shares exceeds the relevant target price, a percentage of the Plan Options as set out below will vest. The Plan Options may then be exercised for the relevant exercise price at any time before the date set out in the table below. Each of the Plan Options currently on issue entitles the holder to subscribe for and be issued one Ordinary Share at the relevant exercise price.

#### **Plan Options currently on issue**

Holder of Plan Options	Number of Plan Options	Performance period	Target price for vesting			Exercise price	Last date for exercise
			25%	25%	50%		
Gary Halton	250,000	04/07/13 – 04/03/17	\$0.3802 <sup>7</sup>	\$0.4889	\$0.5975	\$0.2652	03/07/18
John Taylor	250,000	04/07/13 – 04/03/17	\$0.3802 <sup>8</sup>	\$0.4889	\$0.5975	\$0.2652	03/07/18
Keith Jones	1,000,000	11/06/14 – 11/06/17	\$0.4827	\$0.6206	\$0.7586	\$0.3448	10/06/19
Keith Jones	1,000,000	11/06/14 – 11/06/17	\$0.5873	\$0.7551	\$0.9229	\$0.4195	10/06/19
David Twigg	333,333	12/12/14 – 12/12/17	\$0.5527	\$0.7107	\$0.8686	\$0.3471	11/12/19
Fernando de Vicente	2,000,000	31/03/15 – 31/03/18	\$0.4691	\$0.6032	\$0.7372	\$0.4021	31/03/20

The target prices and exercise prices for the Plan Options currently on issue are in Australian Dollars. Following Admission, for all Plan Options in respect of which the target price has not yet been exceeded, the target price will be converted to Pounds at the prevailing exchange rate as at the Admission Date but the exercise price will remain in Australian Dollars.

#### **10.3 Non-Executive Director Share Plan**

In April 2009, the Company adopted a Non-Executive Director Share Plan ("NED Plan"). The NED Plan allows Non-Executive Directors of the Company to elect to sacrifice part of their directors' fees to acquire Ordinary Shares rather than receiving all of their fees in cash.

#### **10.4 Prospective Long Term Incentive Plan**

The Company is proposing to adopt a new long term incentive plan (the "New LTIP"), to align the interests of senior management with those of the Shareholders. The Company intends to grant options pursuant to the New LTIP over Ordinary Shares with an aggregate market value of approximately £780,000.

<sup>7</sup> This performance condition has been satisfied. Therefore 62,500 of these 250,000 Plan Options will vest at the end of the performance period.

<sup>8</sup> This performance condition has been satisfied. Therefore 62,500 of these 250,000 Plan Options will vest at the end of the performance period.

The New LTIP will allow the Company to either grant options over Ordinary Shares or make conditional awards over Ordinary Shares to selected employees of the Group. Options and awards granted under the New LTIP will be non-tax advantaged.

### **Status of the New LTIP**

Awards granted under the New LTIP will either take the form of an option to acquire Ordinary Shares for nil consideration or will take the form of a conditional share award (which is a right to receive a specified number of shares which will be automatically transferred to the participant following vesting of the award). The awards will have no beneficial tax status.

It is intended that the initial awards to be granted pursuant to the New LTIP shortly following Admission will be granted in the form of options to acquire Ordinary Shares for no consideration.

It is anticipated that the New LTIP will be adopted by the Company shortly following Admission.

### **Eligibility**

All employees (including executive directors) of the Company and any of the Subsidiaries may be granted awards under the New LTIP.

### **Grant**

The Remuneration and Nomination Committee will have absolute discretion to select the persons to whom awards may be granted and, subject to the limits set out below, in determining the number of Ordinary Shares to be subject to each award.

Awards may be granted during the period of 42 days commencing on: (a) the date the New LTIP is adopted by the Company; (b) the date after the Company announces its results for any period; or (c) any other time fixed by the Remuneration and Nomination Committee where, in its discretion, circumstances are considered to be exceptional so as to justify the grant of awards.

If the grant of an award on any of the above days would be prohibited by virtue of the share dealing code which applies to the Company or any statute or regulation or any order made pursuant to such statute, then such award may be granted during the period of 42 days commencing immediately after the dealing day following the time that such prohibition shall cease to have effect.

No consideration is payable for the grant of an award.

### **Plan Limits**

On any date, no award may be granted under the New LTIP if, as a result, the number of Ordinary Shares issued or issuable pursuant to awards granted during the previous ten years under the New LTIP or any other employees' share scheme adopted by the Company would exceed ten per cent of the share capital of the Company in issue on that date.

For the purposes of the limit set out above:

- any Ordinary Shares which were subject to an award or other right (whether granted under the New LTIP or any other employees' share scheme) which has lapsed or been surrendered will not count towards the limit set out above;
- any Ordinary Shares issued or then capable of being issued pursuant to any awards or rights obtained prior to Admission shall not count towards the limit set out above;
- where an award (or other right granted under any other employees' share scheme operated by the Company) takes the form of a right to acquire Ordinary Shares from an employee benefit trust established by the Company, such Ordinary Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust for the purposes of the New LTIP or any other employees' share scheme operated by the Company; and

- Ordinary Shares held under trust arrangements which are used to satisfy awards or other rights (whether under the New LTIP or any other employees' share scheme) shall be taken into account unless and until such shares are no longer required by the 'Investment Management Association' to be so included for the purposes of such limits.

#### **Individual Limit**

Each individual's participation is limited so that, in any one financial year of the Company's, the aggregate market value of Ordinary Shares subject to all awards (calculated as at the date of grant of each award) granted to the individual under the New LTIP in that financial year, will not exceed 200 per cent of the individual's annual base salary at the date of grant. The Remuneration and Nomination Committee shall have the discretion to grant awards in excess of this limit if they believe the circumstances are exceptional enough to justify this.

#### **Performance conditions and vesting terms**

The acquisition of Ordinary Shares pursuant to awards granted under the New LTIP will normally be made conditional upon the achievement of one or more performance conditions set by the Remuneration and Nomination Committee at the time of grant.

Each performance condition shall be measured over a performance period (determined by the Remuneration and Nomination Committee at the time of grant) ("Performance Period").

If an event occurs which causes the Remuneration and Nomination Committee to consider that a condition is no longer appropriate, the Remuneration and Nomination Committee may, acting fairly and reasonably, waive or amend the original performance condition in such manner as it deems fit provided that any such amended condition is not more difficult to achieve than the original performance condition.

It should also be noted that in circumstances where an employee ceases to be an employee of the Group before the end of the relevant Performance Period or certain corporate events occur (such as a change of control of the Company) before the end of the relevant Performance Period then the performance conditions applying to an award shall be assessed on such modified basis as the Remuneration and Nomination Committee thinks fit, acting fairly and reasonably and taking account of all factors which the Remuneration and Nomination Committee consider relevant.

In relation to the initial grant of awards under the New LTIP to be granted shortly following the date of Admission, it is intended that the awards will be granted subject to earnings per share growth targets. The Remuneration and Nomination Committee has the right to determine and set different performance targets to the target referred to above in relation to any award made under the New LTIP.

In addition to granting awards subject to performance conditions the Remuneration and Nomination Committee may at the date of grant of an award determine to grant the award subject to certain vesting terms.

#### **Satisfaction of Awards**

Subject to the satisfaction of the relevant performance targets, an award which takes the form of an option will become capable of exercise following a date or dates ("Vesting Date(s)") specified at the date of grant of an award. Normally a participant will then have until the 10th anniversary of the date of grant within which to exercise their award.

Where an award takes the form of a conditional share award then, as soon as practicable following the Vesting Date, the Company will arrange for the vested Ordinary Shares to be issued or transferred to the participant.

The Vesting Date(s) for any award will be selected by the Remuneration and Nomination Committee and will occur on or after the expiry of all relevant Performance Periods applicable to the award.

An award may not be exercised, where the award takes the form of an option and will not vest, where the award takes the form of a conditional share award at any time during a prohibited period stipulated in the share dealing code which applies to the Company or in any statute or regulation or any order made pursuant to such statute which the Company is required to comply with.

### **Cessation of Employment and Change of Control**

If a participant dies, if his award takes the form of a conditional share award to the extent that it has not already vested it will vest on the date of his death. If his award takes the form of an option it may be exercised by his personal representatives within 12 months of his death and to the extent not exercised by the end of this period will lapse.

If a participant ceases to be employed by a member of the Group by reason of injury, disability, redundancy, retirement, the sale of the Company or business in which the participant works outside of the Group or for any other reason at the discretion of the Remuneration and Nomination Committee (“**Good Leaver**”), awards which take the form of a conditional share award will vest early on the date the participant ceases to be an employee. If his award takes the form of an option it can be exercised within six months of the date of cessation of employment and to the extent not exercised during this period the option will lapse.

Where an award vests or becomes capable of exercise in such circumstances prior to its normal vesting date, the number of Ordinary Shares over which the award vests or becomes capable of exercise will be determined as set out below.

If a participant ceases to be an employee of a member of the Group for a reason other than death or becoming a Good Leaver his award shall cease to be capable of exercise from the date of cessation and lapse 30 days later.

Awards may also vest early, or, where applicable, be exercised early on the occurrence of a change of control of the Company or on the passing of a resolution for the voluntary winding-up of the Company (“**Corporate Event**”). Where an award vests or becomes capable of exercise in such circumstances prior to its normal vesting date, the number of Ordinary Shares over which the award vests or becomes capable of exercise will be determined as set out below.

Where a participant ceases to be an employee or a Corporate Event occurs, an award shall only vest or become capable of exercise to the extent that the performance conditions (which will be assessed on a modified basis to take account of any curtailed Performance Period and relevant factors as necessary) have been satisfied.

Where an award becomes capable of exercise or vests prior to the normal vesting date of all of the award as a result of a Corporate Event or the participant dying or becoming a Good Leaver, the maximum number of unvested Ordinary Shares over which the award will vest or be capable of exercise, as applicable, shall, subject to the discretion of the Remuneration and Nomination Committee to determine otherwise, be pro-rated down on a time-apportioned basis.

In the event of a takeover of the Company, an option holder may be allowed to exchange his award for a new award over shares in the acquiring company.

### **Other Award terms**

Until Ordinary Shares have been issued or transferred to the participant, the participant shall have no entitlement to any dividends or other distributions payable in respect of the Ordinary Shares subject to an award.

An award may be satisfied by either the issue of Ordinary Shares, the transfer of Ordinary Shares (which may have been acquired by subscription or by purchase in the market) held by an existing shareholder who has agreed to satisfy the exercise of the award or by the transfer of Ordinary Shares held under trust arrangements.

Awards are not capable of transfer or assignment.

Until Ordinary Shares have been issued or transferred to the participant, the participant shall have no voting or other rights in relation to the Ordinary Shares subject to an award.

Ordinary Shares allotted pursuant to a New LTIP award will rank *pari passu* in all respects with the Ordinary Shares already in issue. Ordinary Shares transferred on the satisfaction of an award shall be transferred without the benefit of any rights attaching to the Ordinary Shares by reference to a record date preceding the date the Ordinary Shares are transferred.

For so long as the Company's Ordinary Shares are listed on AIM, the Company will use its best endeavours to procure that the Ordinary Shares issued following exercise of any awards are admitted to AIM as soon as practicable after allotment.

Benefits obtained under the New LTIP are not pensionable.

### **Adjustment of Awards**

The number of Ordinary Shares under award and, where applicable, the exercise price may be adjusted by the Remuneration and Nomination Committee in the event of any variation of the share capital of the Company including a capitalisation issue, rights issue, open offer, consolidation, subdivision, reduction of capital, capital distribution, special dividend, distribution in specie, demerger or other similar event occurs which in the opinion of the Remuneration and Nomination Committee would affect the share price of an Ordinary Share to a material extent.

### **Administration and amendment**

The New LTIP is administered by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may amend the provisions of the New LTIP. The rules of the New LTIP which relate to the limits on the number of Ordinary Shares which may be issued under the New LTIP cannot be amended to the advantage of any award holder or potential award holder without the prior approval of the Company in a general meeting except for minor amendments to benefit the administration of the New LTIP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders or any member of the Group.

In addition, no amendment may be made to subsisting awards which will have an adverse effect on such awards except with the written consent of the award holders who hold the majority, by number of Ordinary Shares subject to award, of awards affected by the amendment unless the amendment is a minor amendment to benefit the administration of the New LTIP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any award holder or any member of the Group.

Where awards are made to participants in overseas jurisdictions the plan terms may be amended to reflect regulatory or tax provisions in those jurisdictions (and this may form a separate schedule to the New LTIP).

### **Termination**

The New LTIP may be terminated at any time by resolution of the Board and shall in any event terminate on the 10th anniversary of its adoption so that no further awards can be granted under the New LTIP after such termination. Termination shall not affect the outstanding rights of existing award holders.

## **11 Reasons for the Introduction and Admission**

The Directors believe that Admission provides an attractive proposition for a number of reasons, including, but not limited to, more closely aligning the Company's trading market and shareholder base with its operations in the UK; raising the profile of the Company from a commercial and capital markets perspective; and providing the potential to access the UK equity capital markets for funding the Company's future development.

In addition, given the financial, administrative and compliance obligations and costs associated with maintaining an ASX listing in addition to an AIM listing, the Company has resolved to delist from the ASX shortly following Admission.

## **12 Details of the Introduction and Admission**

The Company, the Directors, David Twigg and Canaccord Genuity have entered into the Introduction Agreement relating to the Introduction pursuant to which, subject to certain conditions, Canaccord Genuity has agreed to provide reasonable assistance to procure that the Entire Issued Share Capital is admitted to trading on AIM.

Under the Introduction Agreement, the Company shall use all reasonable endeavours to obtain Admission. The Company and Canaccord Genuity expressly reserve the right to determine, at any time prior to Admission, to delay or not to proceed with the Introduction and Admission.

Further details of the Introduction Agreement are set out in section 16.3 of part 4 of this document.

Immediately following Admission, it is expected that approximately 60.4% of the Entire Issued Share Capital will not be held in public hands, as defined by the AIM Rules.

With effect from Admission, trading in the Company's Ordinary Shares will be suspended on the ASX and, shortly afterwards, the Company will be formally removed from the official list of the ASX. From that time, the ASX Listing Rules will cease (save for as referred to in part 1 section 22, below) to apply to the Company, but the Company will instead be subject to the AIM Rules.

As an Australian-incorporated company, the Company will continue to be subject to Australian laws and, in particular, the Corporations Act. It will continue to prepare and lodge audited financial statements with the Australian companies' regulator. Some of the material aspects of the Australian laws which will continue to apply to the Company are summarised in this document.

## 13 Rights attaching to shares

As the Company is incorporated in Australia, rights of Shareholders may be different from the rights of shareholders in a UK incorporated company.

There is only one class of shares in the Company, being fully paid Ordinary Shares. The rights attaching to the Ordinary Shares are set out in the Constitution and, in certain circumstances, regulated by the Corporations Act and the general laws of Australia.

The principal rights, obligations and liabilities of Shareholders are summarised below.

### 13.1 Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and every Shareholder present has one vote on a poll for each fully paid Ordinary Share held (with adjusted voting rights for partly paid Ordinary Shares). Voting at any general meeting is by a show of hands unless a poll is demanded. A poll may be demanded by at least five members entitled to vote on the resolution, members with at least 5% of the votes that may be cast on the resolution of the poll, or the chairperson. The chairperson has a casting vote on a show of hands or on a poll.

### 13.2 Dividends

The Directors may pay any interim and final dividends that, in their judgement, the financial position of the Company justifies. Subject to the rules of any stock exchange on which the Ordinary Shares are admitted to trading (the "**Exchange Rules**") and applicable law and regulation, the Directors may fix a record date and a payment date for a dividend. The Directors may rescind a decision to pay a dividend if they decide, before the payment date, that the Company's financial position no longer justifies the payment. Subject to the rights attaching to any shares with special dividend rights, all dividends are paid equally on all shares, except that a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid (not credited) on the share is of the total amounts paid and payable (excluding amounts credited). No shares with special dividend rights are currently in issue. The Directors may decide the method of payment of any dividend. If the Directors decide to pay a dividend by cheque and a cheque sent for a dividend is not presented for payment for 11 calendar months after issue, then the Directors may reinvest the amount, after deducting reasonable expenses, into Ordinary Shares on behalf of, and in the name of, the Shareholder and stop payment on the cheque. Any residual sum may be donated to charity. The same applies if the Directors decide to pay a dividend by electronic funds transfer but a Shareholder has not nominated an account or the payment is rejected or refunded from a nominated account.

Subject to the Exchange Rules, applicable law and regulation, any special rights attached to any class of shares and any special resolution by the Company, the Directors may capitalise and distribute among Shareholders who would be entitled to receive dividends and in the same proportions any amount forming part of the profits of the Company.

### **13.3 Issue of further shares**

The Directors may (subject to any restrictions on the issue of shares imposed by the Exchange Rules, the Constitution and the Corporations Act) issue, grant options in respect of, or otherwise dispose of further shares on terms and conditions (including preferential, deferred or special rights, privileges or conditions, or restrictions) as they see fit.

The Company is not subject to any statutory or constitutional pre-emptive rights in respect of the issue of new shares or other securities in the capital of the Company. The issue of Ordinary Shares is at the discretion of the Board and there is no limit on the number of Ordinary Shares (or other securities) that can be issued by the Company. Please, however, see section 22 of part 1 of this document in relation to the on-going application of ASX Listing Rule 7.1.

The Company may issue preference shares including preference shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible into Ordinary Shares, and may issue debentures or other securities carrying the right to subscribe for, or exchange into, shares or other securities in the Company. No such securities are in issue as at the date of this document.

### **13.4 Variation of class rights**

The rights attached to any class of shares may only be varied with the consent in writing of the holders of at least three quarters of the issued shares in the particular class, or the sanction of a special resolution passed at a meeting of the holders of shares in that class. In either case, under section 246D of the Corporations Act the holders of not less than 10% of the votes in the class of shares whose rights have been varied or cancelled may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

### **13.5 Transfer of shares**

All transfers of Ordinary Shares must comply with the Constitution, the Corporations Act and the Exchange Rules. The Directors may refuse to register a transfer of Ordinary Shares in circumstances permitted by the Exchange Rules. The Directors must refuse to register a transfer of Ordinary Shares where required to do so by the Exchange Rules.

### **13.6 Notice of changes in significant shareholdings**

If and so long as the Company's shares are admitted to trading on AIM, any person who becomes or ceases to be a Significant Shareholder, or who is a Significant Shareholder and whose shareholding increases or decreases through a single percentage, must send the Company a notice setting out certain prescribed information as set out in clause 5.6 of the Constitution. The Company must deliver that information to an FCA-approved regulatory information service for distribution to the public. Please see section 21 of part 1 of this document for further information.

### **13.7 General meeting and notices**

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution or the Corporations Act. The content of a notice of a general meeting is decided by the directors, but it must state the general nature of the business to be transacted at the meeting and any other matters required by the Corporations Act.

The Corporations Act will require that Shareholders receive 21 days' notice of a general meeting of the Company.

All Shareholders are entitled to attend and vote at a general meeting of the Company in person, by proxy, by attorney or by corporate representative. Directors are entitled to attend and speak at general meetings, even if not a Shareholder. The chairperson of a general meeting has certain powers to take action he or she considers appropriate for the safety of persons attending the meeting and the orderly conduct of the meeting and, accordingly, may refuse admission to persons in certain circumstances, for example a person who behaves or threatens to behave in a dangerous, offensive or disruptive way.

### **13.8 Winding up**

Subject to any special resolution or preferential rights attaching to any class or classes of shares, Shareholders will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the Ordinary Shares held by them.

### **13.9 Directors – appointment and removal**

The maximum number of Directors is fixed by the Directors but may not be more than 12 unless the Shareholders pass a resolution varying that number. The Directors are elected at annual general meetings of the Company and Shareholders may vote on their appointment.

### **13.10 Amendment of Constitution**

The Constitution may be amended only be a special resolution passed by at least three quarters of the votes cast by Shareholders entitled to vote on the resolution. At least 28 days' written notice specifying the intention to propose the resolution must be given

## **14 Depositary Interests, Settlement, Dealing and CREST**

In order to be admitted to trading on AIM, the Ordinary Shares must be eligible for electronic settlement. The main electronic settlement system in the UK is CREST, operated by Euroclear. CREST is an electronic, paperless share transfer and settlement system, which allows shares and other securities (including Depositary Interests) to be held, transferred or settled in electronic rather than paper form (the equivalent system in Australia is called the Clearing House Electronic Subregister System (known as "CHESS").

However, as the Company is incorporated in Australia, its shares cannot be directly held, transferred or settled through CREST. As a result, it will be necessary for the Ordinary Shares (other than those held in certificated form) to be held in CREST in the form of Depositary Interests. The Company, through its Depositary, will have a facility whereby Depositary Interests, representing the Ordinary Shares, will be issued by the Depositary in electronic form within the CREST system (the "**DI Facility**"). The Depositary will hold Ordinary Shares in certificated form on trust for the relevant Shareholders and it will issue uncertificated Depositary Interests (on a one-for-one basis) representing those underlying Ordinary Shares. The relevant Shareholders will retain the beneficial interest in the Ordinary Shares held through the DI Facility and voting rights, dividends or any other rights relating to those Ordinary Shares will be passed on by the Depositary in accordance with the terms of the Depositary Arrangements (further details of which are set out in section 16.12 of part 4 of this document). Shares can then be traded and settlement can be effected in the form of Depositary Interests within the CREST system in the same way as any other CREST security.

The Depositary Interests will be created in accordance with and issued on the terms of the Depositary Arrangements. Shareholders who hold Depositary Interests should note that they will have no rights in respect of the underlying Ordinary Shares, or the Depositary Interests representing them, against CREST or its subsidiaries.

Settlement of transactions in the Ordinary Shares, in the form of Depositary Interests, following Admission may take place within the CREST system if the relevant Shareholders so wish.

Application will be made to the London Stock Exchange for the Entire Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM at 8.00 am on 2 December 2016 and

that the earliest date for settlement of such dealings will be on that date. The Depositary Interests will have the same ISIN as the underlying Ordinary Shares and will not require a separate application for admission to trading on AIM.

For further information concerning CREST, Shareholders should contact their brokers or Euroclear at 33 Cannon Street, London, EC4M SSB or by telephone on +44 (0)20 7849 0000.

## **15 Selling restrictions**

The Directors and David Twigg have agreed to certain selling restrictions with the Company and Canaccord Genuity. Further details of these arrangements are set out in section 16.2 of part 4 of this document.

## **16 Taxation**

Information regarding UK taxation is set out in section 10 of part 4 of this document. These details are intended only as a general guide to the current tax position in the UK.

Information regarding Australian taxation is set out in section 11 of part 4 of this document. These details are intended only as a general guide to the current tax position in Australia.

If an investor is in any doubt as to his or her tax position or is subject to tax in a jurisdiction other than the UK or Australia, he or she should consult his or her own independent financial adviser immediately.

## **17 Corporate Governance**

At present, the Company complies with all applicable corporate governance obligations under the Corporations Act. The Company also complies with the requirement in the ASX Listing Rules to include in its annual report a corporate governance statement in which it reports against the ASX Corporate Governance Council's recommendations on an "if not, why not" basis. However, the Company has not adopted all of the recommendations.

The Directors acknowledge the importance of the principles set out in the QCA Corporate Governance Code. Although the QCA Corporate Governance Code is not compulsory for AIM quoted companies, the Directors intend to apply the principles as far as they consider appropriate, given the size and nature of the Group, in accordance with the QCA Corporate Governance Code.

The Board intends to meet regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors will receive appropriate and timely information. Wherever possible, briefing papers will be distributed to all Directors in advance of Board meetings. All Directors will have access to the advice and services of the Executive Chairman, who will be responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. In addition, procedures will be in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

Following Admission, the Board will comprise three Executive Directors being Ned Montarello, Fernando de Vicente and Gary Halton and four Non-Executive Directors, being, David Adams, Peter Gammell, Roger McDowell and Keith Jones, three of whom are independent. The Board considers David Adams, Peter Gammell and Roger McDowell independent for the following reasons:

### **Peter Gammell**

The Board considers Peter to be independent as he will receive a normal Non-Executive Director fee and will not participate in any Company bonus, share option or pension scheme. Whilst Peter could be considered a Significant Shareholder for the purposes of the UK Corporate Governance Code (as a holder of 10.13% of the shares in the capital of the Company), the Board does not consider that this, alone, impairs Peter's independence of judgment and character nor brings his independence into question.

### **David Adams**

The Board considers David to be independent as he will receive a normal Non-Executive Director fee and will not participate in any Company bonus, share option or pension scheme. David does not have close ties with any of the Company's advisers, directors or senior employees and he is not a Significant Shareholder in the Company.

### **Roger McDowell**

The Board considers Roger to be independent as, prior to his appointment to the Board upon Admission, he has no prior connection with the Company either as a shareholder or in an executive capacity. Roger is not a Significant Shareholder in the Company, nor does he receive performance related remuneration.

### **Board Committees**

The Company will, upon Admission, have two committees: (i) an Audit and Risk Committee and (ii) a Remuneration and Nomination Committee.

The Audit and Risk Committee shall comprise a minimum of three members, the majority of whom shall be independent Non-Executive Directors. The chairman of the Audit and Risk Committee shall be an independent Non-Executive Director who is not the chairman of the Board. Additionally, all members of the Audit and Risk Committee should be financially literate and have familiarity with financial management and at least one member should have expertise in financial accounting and reporting. David Adams shall chair the Audit and Risk Committee. The Audit and Risk Committee's primary responsibility is to (i) assist the Board in relation to the reporting of financial information; (ii) assist the Board in relation to the appropriate application and amendment of accounting policies; (iii) assist the Board in relation to the appointment, independence and remuneration of the external auditor; and (iv) provide a link between the external auditors, the Board and management of the Company. The Audit and Risk Committee shall also advise the Board on the Company's overall risk appetite, tolerance and strategy. The Audit and Risk Committee shall meet at least twice a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required in relation to its audit function and at least three times a year at appropriate times in relation to its risk function.

The Remuneration and Nomination Committee shall comprise of a minimum of three members, the majority of whom shall be independent Non-Executive Directors. The chairman of the Remuneration and Nomination Committee shall be an independent Non-Executive Director who is not the chairman of the Board. Peter Gammell shall chair the Remuneration and Nomination Committee. The Remuneration and Nomination Committee's duties include (i) reviewing and recommending to the Board the structure, size and composition of the Board, including the skills, knowledge, experience and diversity of the Board; (ii) recommending and monitoring the level and structure of remuneration for senior management; and (iii) reviewing the on-going appropriateness and relevance of the remuneration policy. The Remuneration and Nomination Committee shall meet as often as required and it is intended that it shall meet at least twice a year.

The Directors understand the importance of complying with the AIM Rules relating to Directors' dealings and shall, from Admission, adopt a share dealing code which is appropriate for an AIM quoted company.

### **Director rotations**

Under the Constitution, any Director appointed by the Directors as an addition to the existing Directors or to fill a casual vacancy (a "**Casual Appointment**") holds office until the conclusion of the next annual general meeting of the Company following his or her appointment.

At every annual general meeting of the Company, one-third of the Directors (excluding Casual Appointments and the managing Director, and rounded down to the nearest whole number) must retire from office. Casual Appointments and Directors retiring by rotation are eligible for re-election at the relevant annual general meeting.

In addition, no director (other than a director who is the managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. A Director retiring under this rule is eligible for re-election at the relevant annual general meeting.

At the Company's 2016 annual general meeting, which was held on 30 November 2016, the Company resolved to elect the following Directors in accordance with the rules of the Constitution set out above: Ned Montarello and Peter Gammell.

## 18 Dividend Policy

The Directors do not currently intend to pay a dividend for the FY17 period, however the Directors may revise the Group's dividend policy from time to time in line with the actual results of the Group.

## 19 Australian takeover laws

As an Australian company, the Company is not subject to the City Code.

However, the Company is subject to Chapter 6 of the Corporations Act, which regulates the acquisition of control over the voting shares in the Company. This section sets out a summary of the key aspects of Chapter 6 of the Corporations Act. However, it does not purport to be comprehensive and should not be relied on as a substitute for obtaining specific legal advice in respect of a Shareholder's own position.

Section 606 of the Corporations Act provides that a person must not acquire a relevant interest in the issued voting shares of the Company if, because of the acquisition, that person's or someone else's voting power in the Company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

A person's voting power in the Company is the number of votes attached to voting shares in the Company in which that person or any of their associates has a relevant interest, expressed as a percentage of the total number of votes attached to all voting shares in the Company.

In general terms, a person (second person) is an associate of another person (primary person) if:

- the primary person is a body corporate and the second person is:
  - a body corporate the primary person controls;
  - a body corporate that controls the primary person; or
  - a body corporate that is controlled by an entity that controls the primary person;
- the second person has, or proposes to enter into, a relevant agreement with the primary person for the purpose of controlling or influencing the composition of the Company's Board or the conduct of the Company's affairs; or
- the second person is a person with whom the primary person is acting, or proposing to act, in concert in relation to the Company's affairs.

In general terms, a person has a relevant interest in voting shares if they:

- are the holder of the shares;
- have power to exercise, or control the exercise of, a right to vote attached to the shares; or
- have power to dispose of, or control the exercise of a power to dispose of, the shares.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

If a person wishes to acquire voting power of more than 20% of the Company (or increase an existing holding of above 20%), the person must do so under one of the exceptions to the general prohibition in section 606. These are set out in section 611 of the Corporations Act. They include acquisitions previously approved by shareholders, the "creep rule" (where if

during the preceding 6 months the person's voting power was at all times at least 19%, it may increase its holding by up to 3%), and acquisitions pursuant to rights issues, underwriting arrangements and dividend reinvestment plans.

The other, principal exceptions are making a takeover bid or undertaking a scheme of arrangement. A takeover bid involves the bidder making offers to the shareholders of the Company. A scheme of arrangement is a shareholder-approved transaction which becomes binding on all shareholders once approved by a court. The Corporations Act regulates the procedure for making a takeover bid and undertaking a scheme of arrangement.

There is no prohibition in Chapter 6 of the Corporations Act on a person holding more than 90% of the voting power in the Company acquiring further shares, and a person who becomes a 90% holder may, within 6 months, compulsorily acquire all remaining shares with Court approval. The 90% holder is not obliged to acquire the remaining shares.

## 20 Australian foreign investment laws

In Australia, foreign investment is regulated by the Foreign Acquisitions and Takeovers Act 1975 (Cth) ("FATA") and related regulations and policies. This section sets out a summary of the key aspects of FATA. However, it does not purport to be comprehensive and should not be relied on as a substitute for obtaining specific legal advice in respect of a Shareholder's own position.

The FATA regulates investment in Australia by "foreign persons." A "foreign person" is:

- a natural person not ordinarily resident in Australia;
- a foreign government or foreign government investor (to whom additional requirements apply – see below); or
- any corporation, trustee of a trust or general partner of a limited partnership in which a natural person not ordinarily resident in Australia, or a foreign corporation or foreign government, holds a substantial interest or several such persons hold an aggregate substantial interest.

A person holds a "substantial interest" if they (and any associates) control 20% or more of the voting power or ownership of a corporation, trustee of a trust or general partner of a limited partnership. An aggregate substantial interest arises where several persons (and any associates) control 40% or more in aggregate of the voting power or ownership of a corporation, trustee of a trust or general partner of a limited partnership.

Investment proposals by foreign persons may need to be notified to the Australian Government and may require prior approval from the Australian Government in accordance with the FATA. In general, private sector foreign persons must notify the Australian Government and get prior approval before acquiring a substantial interest in an Australian entity, such as the Company, that is valued above certain monetary thresholds. Notification may also be required in relation to acquisitions of a substantial interest in a foreign entity whose Australian subsidiaries or gross assets are valued above the applicable monetary thresholds.

The FATA and regulations under the FATA provide the relevant monetary thresholds. Pursuant to various free trade agreements between Australia and other nations, higher thresholds apply to acquisitions by U.S., Chinese, Chilean, Japanese, South Korean and New Zealand investors (other than foreign government investors – see further below). For these investors, notification is currently required of a proposal to acquire a substantial interest in an Australian entity (which is not in certain prescribed sensitive sectors) valued at over A\$1,094 million (the monetary thresholds are indexed each year on January 1 to the GDP price deflator in the Australian National Accounts for the previous year). For other investors (other than foreign government investors), and for acquisitions by U.S., Chinese, Chilean, Japanese, South Korean and New Zealand investors in prescribed sensitive sectors, notification of an acquisition of a substantial interest in an Australian entity is currently required where the entity is valued above A\$252 million (indexed each year on January 1 on the same basis). Prescribed sensitive sectors are media (although there are specific additional rules relating to acquisitions in media businesses), telecommunications, transport, defence and military related industries and activities, encryption and securities technologies and communications systems, uranium or plutonium extraction and nuclear facilities. As at the

date of this document, higher thresholds have been proposed for private sector investors from additional countries who are signatories to the Trans Pacific Partnership, to take effect when the Partnership comes into effect in respect of the relevant country, subject to certain exceptions for particular types of acquisitions.

The FATA also imposes additional requirements for investments in Australia by “foreign government investors”. A “foreign government investor” is a foreign government or separate government entity, or a corporation, trustee of a trust or a general partner of a limited partnership in which a foreign government or separate government entity holds a substantial interest of 20% or more or foreign governments or separate government entities of more than one foreign country hold an aggregate substantial interest of 40% or more. In general, foreign government investors must get approval before acquiring a “direct interest” in Australia (generally at least 10% of the entity/business or the ability to influence or control the entity/business), starting a new business or acquiring an interest in Australian land regardless of the value of the investment.

FATA is administered by the Federal Treasurer on the advice of an advisory board, the Foreign Investment Review Board (“FIRB”). FIRB examines proposals by foreign persons and makes recommendations to the Federal Treasurer on whether those proposals are suitable for approval under the Australian’s foreign investment policy. FIRB’s functions are advisory only. The FATA empowers the Federal Treasurer to make a wide range of prohibition and divestiture orders on broad “national interest” grounds. In some cases, investment approval has been granted to foreign investment proposals subject to compliance with certain conditions, including conditions relating to the payment of tax to the Australian Government.

## 21 The DTRs

The Company is not subject to the provisions of the DTRs and, consequently, Shareholders are not be subject to any legal requirement to disclose to the Company the level of their interests in Ordinary Shares.

Shareholders should note that, following the adoption of amendments to the Constitution on 29 September 2016 (which will take effect on and subject to the admission of the Company’s shares to trading on AIM), the Constitution now contains provisions whereby Shareholders holding direct and/or indirect interests in 3 per cent. or more of the shares in the Company are required to make certain notifications to the Company when such holdings change and such change results in an increase or decrease of shareholdings in the Company through a single percentage. Should Shareholders fail to notify the Company of a relevant change (or fail to adequately make the relevant notifications), the Company has the right (but not the obligation) to serve a notice on such defaulting Shareholders notifying them that they have been disenfranchised. Such notice shall cease to have effect upon the directors resolving to cancel such notice or upon the directors being satisfied that the Shareholder has provided the Company with the relevant notifications. This amendment to the Constitution was required in order for the Company to comply with AIM Rule 17 (Disclosure of miscellaneous information) which requires the Company to issue a notification, without delay, of any relevant changes to the holding of Shareholders holding more than 3 per cent. of the shares in the Company.

## 22 Pre-emption rights

The Company is not subject to any statutory or constitutional pre-emptive rights in respect of the issue of new shares or other securities in the capital of the Company. The issue of shares in the Company is at the discretion of the Board and there is no limit on the number of shares (or other securities) that can be issued by the Company.

As an ASX-listed company, the Company has been subject to ASX Listing Rule 7.1. That rule provides that an entity listed on the ASX may not, without the approval of its ordinary shareholders, issue or agree to issue equity securities (including shares, options, warrants and convertible notes) over a 12 month period in excess of 15% of the ordinary shares on issue at the start of that 12 month period, subject to certain exceptions set out in ASX Listing Rule 7.2.

The Company will no longer be subject to this rule once it ceases to be listed on the ASX which will occur shortly after Admission. Therefore the Company will not be subject to any statutory or constitutional pre-emptive rights in respect of the issue of new shares or other securities in the capital of the Company.

However, the Directors have confirmed that they will continue to act as if ASX Listing Rule 7.1 (as may be amended from time to time) continues to apply to the Company, so that any issue of equity securities (including shares, options, warrants and convertible notes) will be made as if this rule and the related ASX Listing rules continue to apply (as if references to Australian laws in those ASX Listing Rules also include references to the equivalent UK laws).

Acquisitions of shares in the Company are also regulated by the takeover prohibitions in the Corporations Act – see section 19 of part 1 of this document.

**23 Risk factors**

Your attention is drawn to the risk factors set out in part 2 of this document and to the section entitled “Forward Looking Statements” therein. In addition to all other information set out in this document, Shareholders should carefully consider the risks described in those sections.

**24 Additional Information**

You should read the whole of this document and not just rely on the information contained in this part 1. Your attention is drawn to the information set out in part 2 to part 4 (inclusive) of this document which contains further information on the Company and the Group.

## PART 2

### Risk Factors

The Ordinary Shares may not be suitable for all investors and involve a high degree of risk. Prospective investors should consider carefully whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them. Prospective investors are advised to consult a professional adviser authorised under FSMA who specialises in advising on investments of the kind described in this document if they are resident in the UK, or, if they are not resident in the UK, from an appropriately authorised independent adviser.

In addition to the usual risks associated with holding shares in a company, the Directors consider that the factors and risks described below are the most significant in relation to the Company and should be carefully considered, together with all the information contained in this document. The list below is not exhaustive, nor is it an explanation of all the risk factors involved in investing in the Company and nor are the risks set out in any order of priority.

It should be noted that the risks described below are not the only risks faced by the Company and there may be additional risks that the Directors currently consider not to be material or of which they are currently not aware.

If any of the events described in the following risk factors actually occur, the Company's business, financial condition, results or future operations could be materially affected. In such circumstances, the price of the Ordinary Shares could decline and investors could lose all or part of their investment. The Company's performance may be affected by changes in legal, regulatory and tax requirements in any of the jurisdictions in which it operates or intends to operate as well as overall global financial conditions.

#### RISKS RELATING TO THE GROUP'S BUSINESS

##### **The Group is subject to inherent risks from general macro-economic conditions in the UK, the Eurozone and globally**

The Group's business is subject to general macro-economic conditions in the UK and volatility in the global economic and financial markets, both generally and as they specifically affect finance providers. Since the start of the global financial crisis in 2008, the UK economy has experienced significant turbulence and a period of recession, which has adversely affected, among other things, business activity, consumer confidence, spending, demand for supply of credit, levels of employment, the cost and availability of credit and the liquidity of the capital markets. The UK economy is also currently affected by prevailing economic conditions in the Eurozone and globally, including the possibility of further macro-economic deterioration and/or financial market instability, which may also negatively affect consumer confidence, spending and the demand for credit and the retail funding markets. The outlook for the UK economy remains somewhat uncertain (especially so in light of the result of the decision taken at the UK European Union membership referendum which took place on 23 June 2016).

Adverse economic conditions in the UK, such as unemployment, could also have a negative impact on the financial circumstances of the customers to whom the Group provides a Product. Unemployment may reduce levels of spending and adversely impact the demand for leasing equipment, or it may affect customers' ability to meet the obligations under their leases, increasing the likelihood that they could default. In addition, the Group's customer base may be less likely to fund discretionary purchases such as televisions or tablets during periods of economic decline, reducing the Group's opportunity to write new leases. As the Group's retail partners generally sell discretionary goods to consumers, as opposed to necessities, there is a risk that sales will decline during poor economic conditions.

The Group faces risks associated with the decision taken at the UK European Union membership referendum which took place on 23 June 2016, and in which the UK public voted in favour of the UK withdrawing its membership of the EU ("Brexit"). The consequences of the referendum remain unclear, and the Group may be affected by the political and economic instability arising as a result of the referendum. For example, a significant proportion of the legal and regulatory regime applicable to the Group is derived from EU directives and regulations and any changes which may be made to such regimes may have an adverse effect on the Group. In addition, Brexit could result in restrictions on the movement of capital and the mobility of people. Any of these risks

could have a material adverse effect on the Group's business, results of operations and financial condition.

A deterioration of economic and market conditions and/or prolonged volatility could have an overall material adverse effect on the Group's business, financial condition, results of operations and prospects. Conversely, improving economic and market conditions could also adversely affect the Group, as improved financial circumstances of SMEs or individuals to whom the Group provides a Product may have greater propensity to make outright purchases of goods and therefore not require the use of the Group's Products. The Group's customers may change their behaviour based on macro-economic conditions, for example they may decide to make outright purchases of goods, or may decide to fully utilise their assigned credit limit. These macro-economic trends are outside of the Group's control.

The condition of the economy directly affects the Group's customer base and if its customer base shrinks in size due to economic factors this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### **The Group faces risks associated with interest rate levels and volatility**

Interest rates are affected by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions.

Interest rates affect the cost and availability of the principal sources of the Group's funding, which is provided by Santander (under the terms of the Santander Facility Agreement) and STB (through the STB Operating Agreement and through the STB Invoice Discounting Agreement). The interest rate risk is carried by STB under the STB Operating Agreement, but by the Group under the Santander Facility Agreement and the STB Invoice Discounting Agreement.

A sustained low interest rate environment keeps the Group's costs of funding low by reducing the amount of interest the Group pays to Santander and STB and also, the cost for STB to finance the leases which it funds.

In August 2016, the Bank of England base rate was reduced to 0.25%, having previously decreased to 0.5% in March 2009. In the 30 years preceding July 2007, the lowest level of the base rate was 3.5%. It is not clear when the base rate will be increased by the Bank of England. If interest rates are increased, the ability of the Group to pass, and the speed in which it passes, the increased cost of funding to its customers will impact the Group's results and profitability. Additionally, if the Group passes the increased cost of funding to its customers, there is a risk that, in doing so, the Group's Products will become more expensive and the Group will experience decreased demand for its Products. A significant increase in the base rate could have a material adverse impact on the Group's results, profitability and consequently the return on capital.

#### **The Group is exposed to changes in Government policies**

Government policies (of both the UK and Australia) are subject to review and changes from time to time. Such changes are likely to be beyond the control of the Group and may adversely affect its operating and financial performance. At present, the Group is not aware of any reviews or changes that would materially affect its business. However, there is the potential for government reviews and policy changes, which may affect the Group's operations.

The new EU data protection regulation (EU Regulation 2016/679) was published on 4 May 2016 and will apply with effect from 25 May 2018. The Group depends on its ability to obtain, retain, process, use and otherwise manage personal data. The new EU regulation involves replacement of the current UK data protection laws by directly applicable EU regulation and includes some significant changes to the EU data protection regime. Once the EU regulation comes into force in May 2018, it will impose a higher compliance burden on the Group (which could increase the Group's costs) and will impact the way in which it uses certain data, including by reason of enhanced requirements for consent by data subjects to the processing of personal data, granting data subjects a "right to be forgotten" and imposing restrictions on the use of personal data for profiling purposes. Moreover, the maximum levels of fines for compliance failures would increase from current levels to up to 4% of annual worldwide turnover or €20 million, whichever is higher. The applicability of the new EU data protection regulation is dependent on the UK remaining a member of the European Union when this Regulation comes into force.

### **The Group's accounts could be impacted by changes to IFRS or how it is applied by the Group**

From Admission, the Group's accounts shall be prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**Adopted IFRS**"). As such, any changes to Adopted IFRS, or how this is applied by the Group, may result in a change to the timing or amount of the Group's income recognition, assets and/or liabilities which may materially adversely impact the Group's profits. This may in turn adversely impact the timing and/or amount of dividends that the Company may be able to pay to the Shareholders.

### **The Group is reliant on its relationships with Dixons Retail and Carphone Warehouse**

Whilst the Group does have arrangements with a number of retailers, the vast majority of the Group's new business volumes are currently generated from its retail partner Dixons Retail. The Group has a long-standing relationship with Dixons Retail, which spans back to 2002. The exclusive contract with Dixons Retail has most recently been extended to at least 2019 and will continue thereafter until either party serves notice to terminate the agreement. Renewals of distribution agreements with Dixons Retail on less favourable terms to the Group, or termination (due to a material breach by the Group of its obligations under the agreement, or otherwise) of the current agreement, would reduce the Group's distribution network and is likely to have a materially adverse impact on the financial performance and prospects of the Group.

The mutual exclusivity arrangement, in relation to certain products, such as tablets, laptops, computers and televisions, between the Group and Dixons Retail, means that neither party can contract with a competitor of the other party in relation to the provision of a similar product. The Group is therefore bound by this agreement to not contract with other retail partners in relation to specific products. In relation to the Group's B2B Products, the mutual exclusivity arrangement ceases to apply should the value of the rental agreements entered into by Dixons Retail's customers, over a 12 month period, fail to match an agreed annual target, unless the parties agree to extend the exclusivity arrangement.

In relation to Upgrade Anytime, there are some specific carve-outs meaning Dixons Retail is not bound by the exclusivity provisions. These carve-outs give Dixons Retail the opportunity to conclude separate arrangements in these specific areas, and this may be detrimental to the achievement of the agreed annual targets.

The Group also anticipates a significant amount of new custom from the new agreement with Carphone Warehouse and considers that this contract is significant to the Group's growth strategy. The contract is mutually exclusive, meaning that, generally, neither party can contract with a competitor of the other party in relation to the provision of a similar device or piece of equipment. The Group is therefore bound by this agreement to not contract with other retailers in relation to the promotion and sale of rental agreements in respect of mobile phones, smartphones and tablets. The agreement also contains provisions under which the exclusivity provisions fall away, in circumstances where key targets have not been met or where the Group has not obtained the necessary funding. Consequently, depending on the performance of Upgrade Everytime, there is a risk that Carphone Warehouse may be entitled to contract with the Group's competitors in respect of the provision of similar devices.

Carphone Warehouse may terminate the agreement on notice to the Group, in circumstances where the Group has been unable to perform its obligations under the agreement, due to a lack of funding, for a period of 90 days or more. If the Group's agreement with Carphone Warehouse is terminated, this may have an adverse impact on the implementation of this growth strategy and have reputational repercussions for the Group.

Part of the Group's current growth strategy focuses on its existing relationship with Dixons Retail and its new relationship with Carphone Warehouse. The Group aims to drive additional incremental sales through its existing exclusive partnership with Dixons Retail. If the Group's agreements with Dixons Retail and/or Carphone Warehouse were terminated, if the relationship between the Group and Dixons Retail and/or Carphone Warehouse changed, or if Dixons Retail and/or Carphone Warehouse suffered a downturn in trading or, ultimately, ceased trading, this is likely to have a materially adverse impact on the implementation of this growth strategy. If the relationship between the Group and Dixons Retail and/or Carphone Warehouse changed, there is also a risk that this would have implications in relation to the Group's arrangement with Dixons Retail and/or Carphone Warehouse (as applicable), as both entities are within the Dixons Carphone Group.

### **The Group is currently reliant upon its retail partners to promote its Products**

The Group is dependent on its retail partners and their employees to promote its Products within the retail partners' stores and websites. The Group has developed a sales and marketing strategy and training programme to ensure that the Group's Products are offered to potential customers, including advertisements at the point-of-sale, training and incentives for employees. Notwithstanding this, the Group does not have control over the retailers' sales and marketing strategies or their staff on the floor. If retail partners' equipment offerings, pricing or marketing and growth strategies do not remain competitive, if the Group's retail partners suffer a downturn in trading, or, ultimately, cease trading, or their staff do not properly and pro-actively market the Group's Products, this may adversely impact the Group's financial performance.

The Group does not have a complete oversight of its retail partners' interactions with prospective customers, and, consequently, the Group faces certain risks related to the conduct of its retail partners and their employees. If retail partners and their employees are found to have acted inappropriately (by, for example mis-selling, or presenting an incorrect or misleading message about, a Product) or violated applicable conduct regulations or standards during the advertisement of the Group's Products (whether in store or online), the Group's brand and/or reputation could be harmed as a result and the Group may face complaints by customers or an investigation by the FOS or the FCA.

There is a risk that the Group may fail to develop products which are attractive to its retail partners, or otherwise not succeed in developing relationships with retail partners. Furthermore, the Group could lose the services of its retail partners, for example as a result of market conditions causing their closure. Any of these factors could have a negative impact on the Group's ability to meet its strategic objectives, and, consequently, a material adverse effect on its business, financial condition, results of operations and prospects.

### **The Group's business is dependent on its access to funding**

The Group's ability to generate business through customer contracts is dependent on its ability to continue to source financing for the Products. STB and Santander have agreed to provide financing until at least mid-2018, after which the arrangements can be terminated by either party serving notice. Additionally, under the STB Invoice Discounting Agreement, STB has agreed to provide financing until at least November 2019, after which this agreement can be terminated by either party serving notice. A failure to extend these facilities in quantum, or to agree new facilities, to meet leasing demand prior to or after mid-2018 (in the case of the Santander Facility Agreement and the STB Operating Agreement), or prior to or after November 2019 (in relation to the STB Invoice Discounting Agreement), at all, or on satisfactory terms, or termination of these facilities due to actions constituting an event of default or a termination event, could adversely affect the Group's operating and financial performance.

As at the date of this document, the Group has not secured all of the funding that would be required to meet its targeted 90,000 new customers in the second 12 months following the launch of Upgrade Everytime. A failure to extend the existing finance agreements in quantum, or the failure to secure additional funding, to meet demand for Upgrade Everytime leases could adversely affect the Group's operating and financial performance and have reputational repercussions for the Group.

In order to manage the risks associated with access to funding, the Group has two sources of funding rather than just one, although Santander only finances a portion of the Upgrade Anytime leases, and therefore STB is the sole provider of finance for SmartPlan, TBL and Upgrade Everytime. The Group is, however, currently in preliminary discussions with Santander and other lenders in relation to their funding a proportion of the targeted volumes of the Upgrade Everytime leases.

The Directors expect to need to expand the existing facilities and/or agree new facilities in order to meet the demand for the Group's Products. A failure to be able to meet customer demand for the Products could have a material adverse effect on the Group's relationship with its retail partners, reputation, results, financial condition and prospects.

The Group's mutual exclusivity agreement with STB limits its access to alternate funding. The Group is restricted from, for the duration of the STB Operating Agreement (subject to certain specific exceptions), engaging in a business with a funder that operates in direct competition with STB in offering a B2B product through or with any trading division of Dixons Retail. The Group is

also restricted from, for the duration of the STB Operating Agreement, engaging in a business with a funder that operates in direct competition with STB in offering a B2C product through or with any trading division of Dixons Retail, subject to certain exceptions (for example, where STB originates more than half of the aggregate of all B2C leases originated by both STB and by third party funders through Dixon Retail).

The Group is also limited by an exclusivity agreement with Santander in respect of its leases of computers, tablets and televisions which are “Upgrade Anytime” products (but not mobile phones) and must seek the consent of Santander in advance of entering into any agreement for the financing of such leases with a person other than Santander. Santander can also, amongst other things, demand repayment of the loan and cancel commitments on the occurrence of certain events. These events include a change in senior management (where such senior managers are not replaced within a specified timeframe) and a cross-default under RentSmart’s agreements with STB under the STB Operating Agreement.

Part of the Group’s strategy is to encourage existing customers to further utilise their initially pre-approved but not accessed credit limit and to grow the number of new customers. There is a risk that demand for credit by customers (through customers seeking to access more of their available credit, or through large volumes of new customers seeking to enter into leasing contracts) will exceed the amount of credit which is available to the Group. A failure to be able to meet customer demand for the Group’s Products could have a material adverse effect on the Group’s reputation, results, financial condition and prospects.

The Group is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of such financial institutions. A default by, or even concerns about the creditworthiness of, the Group’s funders could have a material adverse effect on the Group’s operations, business, results, financial condition and prospects.

#### **The Group is exposed to the risk of default by its customers**

Under its business model, the Group assumes the credit risk of the customers it finances. RentSmart has agreed to sell to STB and STB has agreed to acquire from RentSmart credit protection in respect of the obligations of the customers who have entered the leases in the form set out in the STB CDS. TFSL has indemnified Santander and each of its affiliates, officers and employees against any cost, loss or liability incurred in connection with or arising out of the funding of the leases (including in connection with any litigation or regulatory enquiry). It has also agreed to indemnify Santander against any cost, loss or liability incurred by Santander as a result of the occurrence of any termination event, failure by a party to pay any amount due under its finance documents, or liabilities incurred by Santander in relation to collecting rental payments under the leases. Under the STB Invoice Discounting Agreement, a subsidiary has provided an indemnity to STB in respect of the obligations of customers who have entered into Upgrade Everytime leases.

Accordingly, the ability and willingness of its customers to meet their payment obligations during the term of their leases is a key contributor to the Group’s financial performance and risk profile. The Group’s business model assumes a certain level of its customers will default on their payments. However, the level of defaults could be higher than the levels assumed by the Group. This may have an adverse impact on the financial performance and prospects of the Group. As part of the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the Group’s results and financial condition, requires complex judgements, including assessment of the ability of customers to meet the payment obligations under their leases. The Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect the Group’s business, financial position and results of operations.

The Group’s ability to realise income on the sale of equipment is dependent on customers returning equipment to the retailer. If customers default on this obligation, or return the equipment in a state which renders the Group unable to recondition the equipment and sell it to a third party, the Group’s financial performance will be adversely affected.

#### **The Group is exposed to the volatility of the retail price of equipment**

There has been a downward trend in pricing of electronic equipment in recent years. This trend, should it continue, may affect the Group’s ATVs and may reduce customer’s propensity to lease,

who may instead decide to purchase equipment outright, which may adversely affect the Group's operating and financial performance.

If electronic equipment (including mobile phones), or any other equipment which can be purchased using one of the Group's Products, becomes cheaper, this will affect the amount of profit the Group makes when it sells the equipment after the duration of the lease term. It should, however, be noted that the Group does not assume a liability in relation to post-lease term sales.

In relation to SmartPlan leases, the Group currently offers a 25% cashback incentive (on the invoice value of the original leased equipment) if a new lease agreement is signed at the end of the previous agreement and the customer upgrades to another piece of equipment. Similarly, the Group offers cashback to Upgrade Anytime customers (of 15% of the original invoice value) as an incentive to take a lease on a new piece of equipment. If electronic equipment becomes cheaper, it may not be profitable for the Group to offer cashback to customers and this lack of incentivisation may impact the amount of customers choosing to take out new Products and therefore may adversely affect the Group's operating and financial performance.

**The consumer credit industry is subject to extensive regulation, and companies operating in this sector are generally required to obtain authorisation from the FCA**

The industry in which the Group operates is subject to a range of legislation and regulations. As of April 2014, the FCA is the regulatory body responsible for the consumer credit industry. The Group's activities are regulated by a regulatory framework based on a combination of FSMA and its secondary legislation, the provisions of the CCAs, and the FCA Rules. The volume and demands of regulation, and the regulatory scrutiny have increased since the transfer of regulatory powers from the OFT to the FCA. The FCA has substantially greater supervisory and enforcement powers than the OFT had. It is also anticipated that the FCA's approach to regulation may prove to be stricter and more proactive than its predecessor.

In July 2015, RentSmart obtained FCA authorisation to enter into consumer hire agreements and debt related activities (and this permission was subsequently varied in June 2016). TISA is also authorised by the FCA to conduct insurance mediation activities (and has been since April 2007). Both of these companies are therefore regulated by the FCA in a similar manner to other financial services in the UK, and are required to comply with certain continuing obligations under the FCA's high-level standards and "Principles for Businesses" as well as rules prescribing systems and controls and conduct of business, including for example, the fair treatment of customers and regular reporting. Specifically, the FCA requires authorised entities to notify it about significant events relating to their controllers, as well as changes of control, and to submit an annual report about their controllers. Controllers or potential controllers of authorised entities are subject to criminal sanctions if they fail to notify the FCA about proposed acquisitions, increases or decreases of control. Conducting consumer credit business without the required authorisation is a criminal offence.

Agreements which are covered by the FCA's consumer credit regime are subject to detailed prescriptive regulation as to the form and content of the agreement and drafting and substance of pre-and post-contract information. The content, execution and on-going notice requirements for such regulated agreements are set out in the CCAs and each of its delegated legislation. Additionally, terms and conditions associated with the regulated agreements must comply with the law on unfair contract terms. Agreements which do not comply with the provisions of the relevant requirements may, in certain circumstances, not be enforceable and, in addition, post-contractual information (i.e. statements, notices of default, arrears, etc.) which is not compliant can lead to the agreement not being able to be enforced while the non-compliance is ongoing; the borrower having no liability to pay interest; and, in certain circumstances, redress needing to be paid to affected customers.

Under FSMA, FCA regulated entities which deal with "eligible complainants" (including most private individuals and SMEs) are subject to the compulsory jurisdiction of the FOS. There is a risk that if the Group does not give a satisfactory response to a customer complaint, the FOS could determine that compensation is payable and direct the Group to take such steps as it deems just and appropriate. The Group may (if the number of complaints brought against the Group exceeds the 25 'free' cases per year) also have to pay £550 per investigation. Any escalation of complaints to the FOS could therefore have an adverse effect on the Group's financial position and reputation.

The Group is subject to PCI-DSS which could change or be reinterpreted, making them difficult or impossible to comply with. If the Group fails to comply with these rules or requirements, it may be subject to fines and/or higher transactions fees and in extreme cases may lose its ability to accept card payments from customers, process electronic fund transfers or facilitate other types of online payments.

Certain FCA authorised and regulated entities are required under the Money Laundering Regulations 2007 to observe and apply certain administrative procedures and checks which are designed to prevent money laundering and financial crime. Any failure in the Group's customer due diligence process could result in a breach of these laws and lead to reputational damage and unlimited fines for the Group, the potential loss of FCA regulated status, and imprisonment of senior management. FCA-regulated firms are subject to certain rules regarding the prevention of financial crime. Failures in systems and controls to prevent money laundering can lead to significant regulatory action being taken against the Group and its senior management, and other employees.

Other general consumer protection legislation may also be relevant, including the Consumer Rights Act.

**Failure to comply with applicable laws, regulations and codes of practice relating to the industry in which the Group operates could result in the suspension, termination or impairment of its ability to conduct business**

Although the Group employs a number of measures to ensure that its operations and employees comply with all applicable laws, including obtaining appropriate advice and monitoring changes to laws, there is a risk that the Group may at some point fail to comply with legislation and regulations to which it is subject. Failure (whether by the Group or by any of its employees) to comply with relevant laws, rules (including those set by the FCA) and regulations could give rise to both criminal and civil liability, could impair the enforceability of certain of its agreements with customers, could lead to the loss of the authorised entities' authorisation and could, more generally, impair the authorised entities' reputation in the market or require redress or compensation to be paid. Specifically, the FCA could impose fines, issue public censure or seek to vary, suspend or withdraw a regulated entity's authorisation if it failed to meet the standards required of it as a regulated business. In certain circumstances, a private person can bring an action for loss suffered as a result of a contravention of an FCA rule or apply to a court for a broad range of remedies in the event of an "unfair relationship" between the firm and that private person. This may give rise to adverse redress liability, publicity, or may force the Group to adjust the way it operates its business or to cease operating certain aspects of its business, which may have a material adverse effect on its operating and financial performance and prospects.

**Changes to the regulatory environment in the UK, or Australia, or an increasing volume of legislation may materially and adversely affect the consumer credit industry and impede the Group's business**

The volume of legislation that is applicable to consumer credit in the UK has been increasing over the last few years. Increasingly, the regulatory focus is on ensuring that consumer credit businesses treat their customers fairly and that business processes throughout the credit cycle are focused on achieving fair outcomes for customers, from assessing affordability of credit at the outset through to treating borrowers in financial difficulties with forbearance. New laws or regulations, or changes in existing laws or regulations (or the manner in which they are interpreted or applied) could require the Group to change the way it conducts its business (such as increasing the Group's compliance burden and costs and requiring it to disclose certain information such as annual percentage rates), change the way it structures its relationships with retail partners, finance partners and customers, or even requiring it to cease offering certain Products. Such changes may have a negative impact on the Group's operating and financial performance. The current market is seeing increased levels of intervention in the banking and personal finance sectors by the government, EU initiatives and other regulators, and new legislative or regulatory restrictions on the Group's funding providers could also have an adverse impact on the Group. As noted above, Brexit may have additional consequences in relation to the regulatory environment in the UK.

Additionally, any FCA general investigatory work or thematic reviews in the consumer credit market and remedial actions that may be necessary as a result could impact negatively on current business practices, costs and operations. The FCA specifically stated in its 2015/2016 business

plan that consumer credit remains a significant issue on the domestic policy agenda, as rates of borrowing increase and the focus on consumer credit remains among commentators and politicians of all parties. It indicated that, in coming years, the FCA will continue to increase its knowledge and understanding of what it has termed a 'diverse sector' and the particular conduct risks that the sector poses. In particular, the FCA considers there to be a risk of potential harm to consumers arising from poor practice when assessing affordability before a credit agreement is entered into, as well as re-assessments during the lifetime of the agreement. New rules have been introduced in relation to high-cost short-term credit, debt management and credit broking, and others have been amended. The FCA recently consulted on credit broker remuneration and indicated its plans to look at cold-calling and use of quotation searches. More generally, the FCA has noted that there may be unintended consequences that may flow from interventions in this area.

### **The Group operates in a competitive landscape**

The industry in which the Group operates is competitive. Due to the price point of equipment at which the Group's Products are sold, there is a risk that "competition" could arise for the Group from customers using their own cash, or use of their credit cards to fund an outright purchase. The Group's competitors include traditional finance providers, such as banks, and other commercial finance companies (including 'disruptive' innovative finance companies) that provide, or may seek to provide, retail point-of-sale finance. The price at which the Group's competitors make finance available (whether or not such competitors' business models are sustainable) could result in a reduction in the number of lease contracts the Group enters as well as reducing its margins.

Many of the Group's competitors have greater scale and financial resources and stronger brand recognition and more extensive networks than the Group. The Group also faces potential competition from new entrants to the market, including manufacturers of equipment themselves. These manufacturers, banks and other financial institutions may engage in enhanced marketing activities which may limit the Group's ability to enter into new lease contracts or attract new customers or retail partners. This places elevated focus on interest rates charged and service as the key differentiators, each of which carries a cost to the provider. If competitors have an appetite for higher risk or are willing to accept lower yields than the Group, they may be able to offer finance which could be chosen by potential customers in preference to the Group's Products. If the Group is unable to match the rates, service or efficiency of any of its competitors, it may have a material adverse effect on its operating and financial performance and prospects.

### **The Group is dependent on information technology**

The Group relies on information technology to process new lease contracts and the Group benefits from software developed for this purpose. The successful operation of the Group's business depends upon maintaining the integrity of its computer, communication and information technology systems. These systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Group's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Group's systems by employees, or unauthorised physical or electronic access; and interruptions to internet system integrity. Additionally, any modifications or upgrades to any information technology systems could result in interruption to the Group's business. Any such damage or interruption could cause significant disruption to the operations of the Group, its ability to trade and its reputation. This could also deter current or potential customers from using its Products.

In addition, the Group relies on access to the internet and a number of third party IT systems (including Experian) to support its processes. Whilst the Group's technology platform's reliance on single third party core systems is minimised through the diversification of providers, the functionality of such systems is outside of the Group's control. Any failure of such systems, or expiry of contracts with such providers without renewal, could result in the Group being temporarily unable to process applications, which could have an adverse effect on the Group's operations, business, results, financial condition, reputation and prospects.

The Group will need to ensure it has suitable business software and hardware systems in place so that it can service new opportunities with new retail partners. An inability to do so may mean it loses out on opportunities with new retail partners and is perceived to be less competitive. Due to the recent growth in online retail and e-commerce, the Group's future performance will depend, in part, on its ability to maintain appropriate systems for the efficient delivery of its Products.

**The Group may be subject to data protection failures or breaches which could adversely affect its business, reputation, operations and financial condition**

The Group's ability to obtain, retain, process, use and otherwise manage personal data is governed by data protection and privacy requirements and regulatory rules and guidance. Whilst the Group has procedures in place to seek to ensure compliance with relevant data protection laws, including the implementation of appropriate security measures, the Group is exposed to the risk of cyber-theft or other security breaches which could result in the wrongful appropriation, unlawful processing, loss or disclosure of personal data. If the Group fails to store or transmit customer information in a secure manner, or if any loss of personal data were to occur, or if it otherwise fails to comply with the requirements of data protection laws, the Group could face liability under data protection laws which could include being required to pay fines and/or expend additional resources to modify and enhance its protective measures and to investigate and remedy vulnerabilities (and please note the upcoming changes to the data protection regime described above). Any of these events could also result in damage to the Group's reputation and a loss of current or potential customers and retail partners, which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is at risk that its customers will be fraudulent on their applications**

The Group is at risk that customers applying for a lease will make misrepresentations on their applications. Such fraudulent activity may lead to the Group having to write such amounts off as bad debt, which in turn could have an adverse effect on the Group.

**The Group's growth strategy is reliant on third parties**

A key aspect of the Group's growth strategy is the expansion of its existing Products into new equipment ranges and partnerships with new retailers. While the Group will investigate the areas into which it intends to expand, there can be no guarantee that it will be possible to successfully launch Products in respect of new equipment ranges.

Additionally, if the Group forms relationships with new retail partners, there is a risk that any adverse change in the Group's relationships with these retail partners, or its inability to establish alternatives to these relationships in a timely and effective manner, could adversely affect the Group's business and results.

**The Group is dependent on key personnel and an effective Board**

The Group's continued success depends on its ability to retain current key members of the senior management team, with their experience and knowledge of the business. While the Group endeavours to retain key management personnel, there can be no guarantee that its key management personnel will continue in their employment with the Group. Any loss of key members of the senior management team would disrupt the Group's operations and may also have a material adverse effect on the Group's operating and financial performance and prospects.

**The Group could become subject to or be required to initiate litigation**

Legal proceedings could be brought against the Group (such as employee-related disputes, intellectual property disputes or contractual disputes). In addition, the Group may be required to initiate legal proceedings to defend its rights. This could be costly and may divert the efforts of management and other personnel from their normal business operations. It could also adversely affect the reputation of the Group which could reduce consumer demand and materially damage the Group and its prospects.

**The Group faces risks associated with its protection of its intellectual property rights**

The Group relies on a combination of trademarks, copyright, and other contractual agreements and technical measures to protect its proprietary rights. The Group's success will in part depend on its ability to establish, protect and enforce proprietary rights relating to the development of the Products and any proposed products. No assurance can be given that any registrations in relation to these rights that are in the future applied for (if any) will be granted, or, if granted, will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights and exclude competitors with similar products.

Further, third parties may have or may obtain proprietary rights that relate to products which are in competition with those of the Group's or its technology. This may result in the Group being

required to develop or obtain alternative technology, or being required to obtain appropriate licenses, which may not be available on acceptable terms or at all. Such circumstances may result in the Group having to significantly increase development efforts and resources or to discontinue some or all of the Products.

Third parties may register or have obtained registrations in jurisdictions in which the Group trades or proposes to trade. There can be no assurance that, if the Group commences trading in any other jurisdiction in which it does not have registered trademarks or other intellectual property rights, any trademarks it requires will not have been registered by another person and the Group may need to carry out a re-branding exercise or seek to acquire any such proprietary rights. The costs of re-branding may be extensive and the Group may not be able to acquire any such rights without incurring significant liabilities, or at all.

Litigation may be necessary in the future to enforce the Group's intellectual property rights, to determine the scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and there can be no assurance that the Group would prevail in any future litigation. Such litigation, whether or not determined or resolved in the Group's favour, would be costly and may divert the efforts and attention of the Group's management and technical personnel from their normal business operations. Adverse determinations in litigation could result in the loss to the Group of its proprietary rights, subject the Group to significant liabilities, or prevent the Group from promoting its Products. If the Group cannot successfully enforce or defend its intellectual property rights, this could have a material adverse effect on its business, financial condition and prospects.

#### **Transfer pricing arrangements may be investigated or challenged by taxation authorities**

The Company is the owner of certain intellectual property rights of the Group. The Company licenses out these intellectual property rights to various members of the Group, and therefore receives license fees and royalty payments in return. There is a risk that these arrangements could be investigated or challenged by the UK or Australian taxation authorities (including under applicable transfer pricing legislation, which generally requires that all transactions between related parties take place on an arm's length basis). Any investigation of such arrangements could be costly and may divert the efforts of management and other personnel from their normal business operations. If the arrangements are successfully challenged it could ultimately force the Group to adjust the way it operates its business, which may have a material adverse effect on its operating and financial performance and prospects.

#### **The Group is reliant on its reputation to appeal to retail partners and customers**

The success of the Group's strategy relies partly on the reputation of the Group and its senior management, and on its retail partners and customers associating its platform with fast decisions, reliability, meeting customer needs and delivering value to those customers.

Any damage to the Group's reputation, whether arising from IT systems failure, operational failure, litigation, actual or alleged instances of the mis-sale of Products by the Group's retail partners, regulatory, supervisory or enforcement actions, matters affecting the Group's financial reporting, negative publicity, customer service or complaints management issues, or the Group's conduct of its business or otherwise, could negatively affect the Group's relationships with its retail partners and customers, which would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any perceived or actual concerns relating to the Group's business may be widely disseminated online or otherwise and, consequently, could result in customers, finance partners or retail partners, including potential new customers, finance partners and retail partners, becoming less willing to conduct business with the Group. If existing retail partners or finance partners believe that such concerns negatively affect their image or reputation, they may terminate their existing arrangements with the Group. Current methods of dissemination of information mean that potential threats to reputation can occur in a very short period of time and reach a far broader audience than was historically the case, making it more difficult to address such issues. The widespread dissemination of negative publicity, whether true or not, could damage the Group's reputation, which could have a material adverse effect on the Group's results of operations and financial condition.

#### **Ned Montarello's influence over the Company's operations**

Following Admission, the percentage of the Entire Issued Share Capital that Ned Montarello will own will be approximately 29%. Ned Montarello will, through the votes he will be able to exercise

at general meetings of the Company, be able to exercise a significant degree of influence over the Company's operations and over its Shareholders' meetings, such as in relation to the declaration of dividends, the appointment and removal of Directors, the approval of significant transactions entered into by the Company and changes in the Company's capital structure. The concentration of ownership and voting power may delay, defer or even prevent an acquisition by a third party or another change of control of the Group and may make some transactions impossible without the support of Ned Montarello, even if such events are in the best interests of the other Shareholders. In addition, it could have a negative impact on the price of the Ordinary Shares. In addition, Ned Montarello, as Executive Chairman, will have a significant influence over the Board.

### **The Group faces risks associated with the Company being incorporated in Australia**

Legal, tax and regulatory changes in Australia, where the Company is incorporated, may also impose additional financial obligations on the Company or otherwise adversely affect the financial position and performance of the Company. As the Company is incorporated in Australia, rights of Shareholders may be different from the rights in a UK incorporated company. For example, the Company is not subject to any statutory or constitutional pre-emptive rights in respect of the issue of new shares or other securities in the capital of the Company. Although the Directors have stated their intention to adhere to ASX Listing Rule 7.1 after Admission, the issue of shares in the Company is ultimately at the discretion of the Board and there is no limit on the number of shares (or other securities) that can be issued by the Company. Additionally, as set out below, Shareholders will not receive the protection that the City Code affords, but they will receive the protection of the provisions set out in Chapter 6 of the Corporations Act.

## **RISKS RELATING TO THE ORDINARY SHARES**

### **Liquidity and possible price volatility**

Following Admission, the market price of the Ordinary Shares may be subject to significant fluctuations in response to many factors, including variations in the results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, legislative changes in the Group's sector and other events and factors outside of the Group's control.

In addition, stock market prices may be volatile and may go down as well as up. The price at which investors may dispose of their Ordinary Shares in the Company may be influenced by a number of factors, some of which may pertain to the Group and others of which are extraneous. These factors could include the performance of the Group's business, changes in the values of its investments, changes in the amount of distributions or dividends, changes in the Group's operating expenses, variations in and the timing of the recognition of realised and unrealised gains or losses, the degree to which the Group encounters competition, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, legislative or regulatory or taxation changes and general economic conditions. The value of the Ordinary Shares will therefore fluctuate and may not reflect their underlying value. Investors may realise less than the original amount invested.

The Ordinary Shares will not be listed on the Official List of the UK Listing Authority and although the Ordinary Shares will be traded on AIM, this should not be taken as implying that there will always be a liquid market in the Ordinary Shares. In addition, the market for shares in smaller public companies is less liquid than for larger public companies. Liquidity in the Ordinary Shares is also dependent on existing Shareholders ensuring that, following Admission, their Ordinary Shares are converted into Depositary Interests, so as to facilitate electronic settlement. Therefore an investment in the Ordinary Shares may be difficult to realise and the price of the Ordinary Shares may be subject to greater fluctuations than might otherwise be the case.

An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List of the UK Listing Authority. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Ordinary Shares cannot be guaranteed. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment. Moreover, it may be more difficult for an investor to realise an investment in the Group than in a company whose shares are quoted on the Official List. In addition, the market price of the Ordinary Shares may not reflect the underlying value of the Group's net assets.

### **Persons holding shares in the form of Depositary Interests may not be able to exercise their voting rights**

Persons holding shares in the form of Depositary Interests may not be able to exercise voting rights. Under the Constitution, only those persons who are Shareholders of record are entitled to exercise voting rights. Persons who hold Ordinary Shares in the form of Depositary Interests will not be considered to be record holders of Ordinary Shares that are on deposit with the Depositary and, accordingly, will not be able to exercise voting rights. However, the Depositary Arrangements provide that the Depositary shall pass on, as far as it is reasonably able, rights and entitlements to vote. In order to direct the delivery of votes, holders of Depositary Interests must deliver instructions to the Depositary by the specified date. Neither the Company nor the Depositary can guarantee that holders of Depositary Interests will receive the notice in time to instruct the Depositary as to the delivery of votes in respect of Ordinary Shares represented by Depositary Interests and it is possible that they will not have the opportunity to direct the delivery of votes in respect of such Ordinary Shares.

In addition, persons who beneficially own Ordinary Shares that are registered in the name of a nominee must instruct their nominee to deliver votes on their behalf. Neither the Company nor any nominee can guarantee that the beneficial owners of Ordinary Shares will receive any notice of a solicitation of votes in time to instruct nominees to deliver votes on behalf of such holders and it is possible that holders of Depositary Interests and other persons who hold Ordinary Shares through brokers, dealers or other third parties will not have the opportunity to exercise any voting rights.

Further details of the Depositary Arrangements are set out in section 16.12 of part 4 of this document.

### **Price risk following sale and expiry of selling restrictions**

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by certain Shareholders following the expiry of the selling restrictions, details of which are set out section 16.2 of part 4 of this document, or the expectation or belief that sales of such Ordinary Shares may occur.

### **Shareholders may be diluted on future issues**

The Company may seek to raise financing to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing Shareholders at the time of such an issue may suffer dilution in their percentage ownership or the price of the Ordinary Shares may be adversely affected.

### **The Company's ability to pay dividends is not guaranteed**

The Company's results of operations and financial condition are entirely dependent on the trading performance of the members of the Group. The Company's ability to pay dividends will depend, among other things, on its financial performance, any restrictions relating to regulatory capital in Subsidiaries and the availability of distributable profits and reserves and cash available for this purpose. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally the Company's ability to receive sufficient dividends from its Subsidiaries. The payment of dividends by Subsidiaries is, in turn, subject to restrictions, including the existence of sufficient distributable reserves and cash in those subsidiaries, legislatively imposed repatriation requirements and certain restrictions in the Company's debt financing arrangements. These restrictions could limit or prohibit the payment of dividends to the Company by its Subsidiaries, which could restrict the Company's ability to pay dividends to Shareholders in the future.

### **The Company is not subject to the City Code**

As an Australian incorporated company, any potential takeover of the Company would be subject to the takeover provisions of chapter 6 of the Corporations Act. The Company is not subject to the City Code. Whilst the regime governing takeovers under the Corporations Act provides certain safeguards to Shareholders, Shareholders will not receive the protection that the City Code affords including the supervision and scrutiny of the UK Panel on Takeovers and Mergers. Further details of the key terms of the takeover provisions which apply to the Company are set out in section 19 of part 1 of this document.

### **Risks relating to taxation and change of legislation**

This document has been prepared on the basis of current legislation, regulation, rules and practices and the Directors' interpretation thereof. Such interpretation may not be correct and legislation, regulation, rules and practice may change, possibly with retrospective effect.

Any change in legislation, regulation, rules, or practice, and in particular in the tax status or tax residence of the Group or the Company may have an adverse effect on the returns available on an investment in the Company.

The attention of Shareholders is drawn to section 10 of part 4 of this document headed "UK Taxation" and section 11 of part 4 of this document headed "Australian Taxation".

Current and potential Shareholders are strongly recommended to consult an independent financial adviser authorised under FSMA who specialises in investments of this nature before making any investment decision in respect of Ordinary Shares.

## PART 3

### Accountants Report and Historical Financial Information



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SUBIACO  
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Australia

1 December 2016

Ladies and Gentlemen

#### **ThinkSmart Limited**

We report on the financial information set out on pages 73 to 114 for the twelve months ended 31 December 2013, six months ended 30 June 2014, twelve months ended 30 June 2015 and 30 June 2016. This financial information has been prepared for inclusion in the AIM Admission Document dated 1 December 2016 of ThinkSmart Limited on the basis of the accounting policies set out in note 3. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of ThinkSmart Limited are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### Opinion on financial information

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 1 December 2016, a true and fair view of the state of affairs of ThinkSmart Limited and its subsidiary undertakings as at 31 December 2013, 30 June 2014, 30 June 2015 and 30 June 2016 and of its profits and losses, cash flows and recognised gains and losses for the twelve months ended 31 December 2013, six months ended 30 June 2014, twelve months ended 30 June 2015 and 30 June 2016 in accordance with the basis of preparation set out in note 2 and in accordance with International Financial Reporting Standards as adopted by the European Union.

### Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully  
KPMG LLP

## Consolidated Statement of Profit & Loss and Other Comprehensive Income

	Notes	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Continuing operations</b>					
Revenue	6(a)	10,367	5,570	11,707	11,813
Other revenue	6(b)	1,360	713	1,537	1,459
<b>Total revenue</b>		<b>11,727</b>	<b>6,283</b>	<b>13,244</b>	<b>13,272</b>
Customer acquisition costs	6(c)	(2,264)	(1,133)	(1,688)	(1,561)
Cost of inertia asset realised	6(d)	(798)	(953)	(2,712)	(2,099)
Other operating expenses	6(e)	(6,148)	(2,718)	(5,753)	(5,826)
Depreciation and amortisation	6(f)	(286)	(151)	(344)	(704)
Impairment losses	6(g)	(158)	(85)	(271)	(390)
Non-operating strategic review and advisory expenses	8	—	—	—	(1,846)
<b>Profit before tax</b>		<b>2,073</b>	<b>1,243</b>	<b>2,476</b>	<b>846</b>
Income tax expense	7	(466)	(393)	(624)	(545)
<b>Profit after tax from continuing operations</b>		<b>1,607</b>	<b>850</b>	<b>1,852</b>	<b>301</b>
<b>Profit/(loss) from discontinued operation, net of tax</b>		<b>(178)</b>	<b>5,365</b>	<b>—</b>	<b>—</b>
<b>Profit after tax</b>		<b>1,429</b>	<b>6,215</b>	<b>1,852</b>	<b>301</b>
<b>Other comprehensive (loss)/income</b>					
<b>Items that may be reclassified subsequently to profit or loss, net of income tax:</b>					
Foreign currency translation differences for foreign operations		(3,200)	393	(1,193)	346
Effective portion of changes in fair value of cash flow hedges relating to the disposal group, net of tax	28	25	—	—	—
<i>Total items that may be reclassified subsequently to profit or loss net of income tax</i>		<i>(3,172)</i>	<i>418</i>	<i>(1,193)</i>	<i>346</i>
<b>Other comprehensive (loss)/income for the period, net of income tax</b>		<b>(3,172)</b>	<b>418</b>	<b>(1,193)</b>	<b>346</b>
<b>Total comprehensive (loss)/income for the period attributable to owners of the Company</b>		<b>(1,743)</b>	<b>6,633</b>	<b>659</b>	<b>647</b>
<b>Earnings per share (pence)</b>					
Basic (pence per share)	29	0.90	3.87	1.45	0.31
Diluted (pence per share)	29	0.89	3.84	1.43	0.31
<b>Earnings per share (pence) – continuing operations</b>					
Basic (pence per share)	29	1.01	0.53	1.45	0.31
Diluted (pence per share)	29	1.00	0.53	1.43	0.31

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

## Consolidated Statement of Financial Position

	Notes	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Current assets</b>					
Cash and cash equivalents	22	4,110	21,609	8,222	4,854
Trade receivables		625	606	497	295
Finance lease receivables	10	—	—	1,124	2,796
Other current assets	11	2,064	2,814	2,826	2,623
Assets held for sale	13	36,167	—	—	—
<b>Total current assets</b>		<b>42,966</b>	<b>25,029</b>	<b>12,669</b>	<b>10,568</b>
<b>Non-current assets</b>		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Finance lease receivables	10	—	—	1,153	1,525
Plant and equipment	14	86	130	247	263
Intangible assets	15	6,686	6,637	6,182	7,213
Goodwill	17	2,332	2,332	2,332	2,332
Deferred tax assets	7	2,612	189	28	—
Tax receivable	7	—	—	—	53
Other non-current assets	12	3,628	3,019	2,678	3,309
<b>Total non-current assets</b>		<b>15,344</b>	<b>12,307</b>	<b>12,620</b>	<b>14,695</b>
<b>Total assets</b>		<b>58,310</b>	<b>37,336</b>	<b>25,289</b>	<b>25,263</b>
<b>Current liabilities</b>		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Trade and other payables	18	1,230	1,796	1,160	1,717
Deferred service income	19	2,087	1,855	1,646	1,297
Other interest bearing liabilities	20	—	—	1,077	2,182
Tax payable	7	2,454	55	407	—
Provisions	18	196	130	112	192
Liabilities held for sale	13	22,317	—	—	—
<b>Total current liabilities</b>		<b>28,284</b>	<b>3,836</b>	<b>4,402</b>	<b>5,388</b>
<b>Non-current liabilities</b>		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Deferred service income	19	916	896	895	819
Deferred tax liabilities	7	—	—	—	14
Other interest bearing liabilities	20	—	—	692	1,190
<b>Total non-current liabilities</b>		<b>916</b>	<b>896</b>	<b>1,587</b>	<b>2,023</b>
<b>Total liabilities</b>		<b>29,200</b>	<b>4,732</b>	<b>5,989</b>	<b>7,411</b>
<b>Net assets</b>		<b>29,110</b>	<b>32,604</b>	<b>19,300</b>	<b>17,852</b>
<b>Equity</b>		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Issued capital	21(a)	25,154	25,154	14,376	14,376
Reserves		(2,026)	(1,633)	(2,826)	(2,480)
Accumulated profits		5,982	9,083	7,750	5,956
<b>Total equity</b>		<b>29,110</b>	<b>32,604</b>	<b>19,300</b>	<b>17,852</b>
		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

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

## Consolidated Statement of Changes in Equity

	Fully paid ordinary shares £,000	Foreign currency translation reserve £,000	Hedging reserve £,000	Accumulated Profit £,000	Attributable to equity holders of the parent £,000
Balance at 1 January 2013	25,142	1,232	(58)	4,553	30,869
Profit for the period (12 months to 31 Dec13)	—	—	—	1,378	1,378
Exchange differences arising on translation of foreign operations, net of tax	—	(3,224)	—	—	(3,224)
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	24	—	24
Total comprehensive income for the period	—	(3,224)	24	1,378	(1,822)
<i>Contributions by and distributions to owners of the Company</i>					
Recognition of share-based payments	12	—	—	51	63
<b>Balance at 31 December 2013</b>	<b>25,154</b>	<b>(1,992)</b>	<b>(34)</b>	<b>5,982</b>	<b>29,110</b>
Profit for the period (6 months to 30 Jun14)	—	—	—	6,215	6,215
Exchange differences arising on translation of foreign operations, net of tax	—	359	—	—	359
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	34	—	34
Total comprehensive income for the period	—	359	34	6,215	6,608
<i>Contributions by and distributions to owners of the Company</i>					
Dividends paid	—	—	—	(3,113)	(3,113)
Share buyback	(128)	—	—	—	(128)
Cash received from exercise of employee share options	128	—	—	—	128
Recognition of share-based payments	—	—	—	(1)	(1)
<b>Balance at 30 June 2014</b>	<b>25,154</b>	<b>(1,633)</b>	<b>—</b>	<b>9,083</b>	<b>32,604</b>
Profit for the period (12 months to 30 Jun15)	—	—	—	1,751	1,751
Exchange differences arising on translation of foreign operations, net of tax	—	(1,193)	—	(1)	(1,194)
Total comprehensive income for the period	—	(1,193)	—	1,750	557
<i>Contributions by and distributions to owners of the Company</i>					
Dividends paid	—	—	—	(3,184)	(3,184)
Share buyback	(10,490)	—	—	—	(10,490)
Costs associated to share buyback	(288)	—	—	—	(288)
Recognition of share-based payments	—	—	—	101	101
<b>Balance at 30 June 2015</b>	<b>14,376</b>	<b>(2,826)</b>	<b>—</b>	<b>7,750</b>	<b>19,300</b>
Profit for the period (12 months to 30 Jun16)	—	—	—	194	194
Exchange differences arising on translation of foreign operations, net of tax	—	346	—	(1)	345
Total comprehensive income for the period	—	346	—	193	539
<i>Contributions by and distributions to owners of the Company</i>					
Dividends paid	—	—	—	(2,094)	(2,094)
Recognition of share-based payments	—	—	—	107	107
<b>Balance at 30 June 2016</b>	<b>14,376</b>	<b>(2,480)</b>	<b>—</b>	<b>5,956</b>	<b>17,852</b>

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

## Consolidated Statement of Cash Flows

	Notes	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		36,537	8,110	13,443	13,557
Payments to suppliers and employees		(33,298)	(6,346)	(12,794)	(10,915)
Payments relating to strategic review and advisory expenses		—	—	—	(1,225)
Payments in respect of lease receivables		—	—	—	(1,963)
Proceeds from other interest bearing liabilities, inclusive of related costs		—	—	—	1,555
Interest received		383	250	402	146
Interest and finance charges		(2,157)	(157)	(103)	(311)
(Payments)/receipts from security guarantee		17	—	(96)	763
Income tax paid		(529)	(467)	(239)	(622)
Net cash from operating activities	22(b)	<u>953</u>	<u>1,390</u>	<u>613</u>	<u>985</u>
<b>Cash Flows from Investing Activities</b>					
Disposal of discontinued operations net of cash disposed		—	14,451	—	—
Income tax paid on discontinued operations		—	(1,757)	—	—
Payments for plant and equipment		(133)	(195)	(211)	(147)
Payment for intangible assets – software		(373)	—	(651)	(1,961)
Payment for intangible assets – agreements		(364)	(121)	(349)	(172)
Net cash used in investing activities		<u>(870)</u>	<u>12,378</u>	<u>(1,211)</u>	<u>(2,280)</u>
<b>Cash Flows from Financing Activities</b>					
Proceeds from other interest bearing liabilities		14,828	1,370	2,004	—
Repayments of other interest bearing liabilities		(14,878)	(1,258)	—	—
Dividends paid	21(c)	—	(3,113)	(3,184)	(2,094)
Share buyback		—	(126)	(10,752)	—
Proceeds from exercise of share options		—	128	—	—
Net cash used in financing activities		<u>(50)</u>	<u>(2,999)</u>	<u>(11,932)</u>	<u>(2,094)</u>
Net increase/(decrease) in cash and cash equivalents		33	10,769	(12,530)	(3,389)
Effect of exchange rate fluctuations on cash held		502	102	(857)	21
Cash and cash equivalents from continuing operations at beginning of the financial year		10,081	4,110	21,609	8,222
Cash and cash equivalents from discontinued operations at beginning of the financial year		—	6,628	—	—
Cash and cash equivalents from discontinued operations at end of period		(6,506)	—	—	—
<b>Total cash and cash equivalents at the end of the financial period</b>	22(a)	<u>4,110</u>	<u>21,609</u>	<u>8,222</u>	<u>4,854</u>
Restricted cash and cash equivalents at the end of the financial period	22(a)	<u>(105)</u>	<u>(316)</u>	<u>(213)</u>	<u>(117)</u>
<b>Net available cash and cash equivalents at the end of the financial period</b>		<u>4,005</u>	<u>21,293</u>	<u>8,009</u>	<u>4,737</u>

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

## **1. General Information**

ThinkSmart Limited (the “Company” or “ThinkSmart”) is a limited liability company incorporated in Australia. The consolidated financial statements of the Company comprise the Company and its subsidiaries (the “Group”). The Group is a for profit entity and its principal activity during the period was the provision of lease and rental financing services in the UK. The address of the Company’s registered office is Suite 5, 531 Hay Street Subiaco, West Perth, WA 6008 and further information can be found at [www.thinksmartworld.com](http://www.thinksmartworld.com).

## **2. Basis of Preparation**

### **(a) Statement of compliance**

The Company is planning to seek admission to AIM, a sub-market of the London Stock Exchange and the financial information has been prepared for the purposes of the AIM admission document in accordance with the AIM Rules for Companies and in accordance with this basis of preparation, including the significant accounting policies set out below.

This Group financial information for the statutory accounting periods ended 30 June 2016, 30 June 2015, 30 June 2014 and 31 December 2013 has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”).

The Group is preparing its financial information in accordance with Adopted IFRS for the first time and no transitional adjustments came about through the migration from Australian Accounting Standards (AASB). The date of transition to Adopted IFRSs is 1 January 2013, which is the beginning of the earliest comparative period presented and the opening balance sheet is shown in note 31. The Group financial information consolidates those of the Company and its UK/European subsidiaries (together referred to as the “Group”).

Subsidiaries (as detailed in note 16) previously prepared individual statutory accounts under local accounting standards with consolidated statutory accounts being prepared under the ultimate Australian parent, ThinkSmart Limited, in accordance with Australian Accounting Standards (AASBs). The financial information set out above does not constitute the Company’s statutory accounts for the years ended 31 December 2013, 30 June 2014, 30 June 2015 and 30 June 2016. The financial information for these periods is derived from the statutory accounts which have been delivered to the Australian registrar of companies. The auditor has reported on these accounts and their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement of non-compliance with the Australian Corporations Act 2001.

#### *Accounting period*

The financial information presented covers the audited periods ended 30 June 2016 (12 months), 30 June 2015 (12 months), 30 June 2014 (6 months) and 31 December 2013 (12 months).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in this consolidated financial information and in preparing an opening IFRS balance sheet at 1 January 2013 in note 31, for the purposes of the transition to Adopted IFRSs. There has been no material impact arising from the adoption of any IFRS since the opening balance sheet date.

### **(b) Basis of measurement**

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Pounds unless otherwise noted.

### **(c) Assets held for sale and discontinued operations**

#### **(i) Assets held for sale**

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than continued use. Immediately before classification as held for sale, the assets, or components of a disposal group are remeasured in accordance with the Group’s other accounting policies. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

(ii) Discontinued operations

Discontinued operations is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represent a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is represented as if the operation had been discontinued from the start of the comparative year.

**(d) Functional and presentation currency**

These consolidated financial statements are presented in Pounds, which is the Group's functional currency. Previous to the proposed AIM listing the financial statements were presented in Australian Dollars.

**(e) Change of Financial Year End**

The Group changed its financial year end from 31 December to 30 June effective 1 January 2014. As a result of the change, the financial report for the Group at 30 June 2014 reflects the results for the six months ended 30 June 2014.

**(f) Going Concern**

The directors believe the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements. Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk.

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(a) Basis of consolidation**

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit and loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

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

**(b) Business combinations**

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

#### *Measuring goodwill*

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

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

#### **(c) Revenue recognition**

The Group has relationships with retailer partners to act as a facilitator and arranger of financing arrangements to allow those retailers to provide technological products to consumers under short/medium term finance contracts. The financing is obtained by the Group from third party funding partners.

Depending on the nature of the agreements with those funders, these contracts result in the Group acting as a lessor or as the agent of the funder (who is then the lessor).

Where the Group is acting as the lessor it follows the treatment outlined in IAS 17. In accordance with IAS 17 the contracts are considered to be finance leases and the only source of revenue is Finance Lease Income. This Finance Lease Income is recognised on the effective interest rate method at the constant rate of return. This method amortises the lease asset over its economic life down to the estimate of any unguaranteed residual value that is expected to be accrued to the Group at the end of the lease.

Where the Group is acting as the agent it receives the following revenue streams:

##### *Commission income*

An upfront brokerage fee receivable from the funder in exchange for arranging the contract.

##### *Deferred service income*

As part of the agreement with funders the Group obtain the right to receive income arising from equipment and rights to the hiring agreement at the end of the minimum term, which is recognised upfront as an Inertia Contract Intangible Asset (see note 3g). An amount equal to this asset is then recognised as deferred service income over the life of the contract.

##### *Extended rental income*

Once the contract between the funder and the customer expires the asset becomes the property of the Group and any extended rental income is payable to Group, being recognised when receivable.

##### *Income earned from sale of inertia assets*

At the end of the extended rental period any proceeds on disposal of the asset are recognised at the point of disposal.

##### *Services revenue – insurance*

Lease customers of hire agreements originated by the Group are required to have suitable insurance in respect of the leased equipment. If these customers do not make independent insurance arrangements the Group arrange insurance and collect the premiums on their behalf, receiving a commission from the insurer for doing so.

#### **(d) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits with an original maturity of less than 3 months. Cash equivalents are short-term, highly liquid investments that are readily converted to known amounts of cash which are subject to an insignificant risk of change in value. Restricted cash comprises amounts held in trust in relation to dividends paid on employee loan funded shares.

## **(e) Plant and equipment**

### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

### *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. The following estimated useful lives are used in the calculation of depreciation:

- |   |                |
|---|----------------|
| – Office furniture, fittings, equipment and computers | 3 to 5 years   |
| – Leasehold improvements                              | the lease term |

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

## **(f) Trade and other payables**

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

## **(g) Financial instruments**

### *(i) Non-derivative financial assets*

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

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

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

### *Investments*

Investments are recognised and derecognised on the trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements, net of accumulated impairment losses. Other financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### *Lease receivables*

The Group has entered into financing transactions with customers and has classified its leases as finance leases for accounting purposes. Under a finance lease, substantially all the risks and benefits incidental to the ownership of the leased asset are transferred by the lessor to the lessee. The Group recognises at the beginning of the lease minimum term an asset at an amount equal to the aggregate of the present value (discounted at the interest rate implicit in the lease) of the

minimum lease payments and an estimate of the value of any unguaranteed residual value expected to accrue to the benefit of the Group at the end of the minimum lease term. This asset represents the Group's net investment in the lease.

Unearned finance lease income

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

Initial direct transaction income and costs

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

Allowance for losses

The collectability of lease receivables is assessed on an ongoing basis. A provision is made for losses based on historical rates of arrears and the current delinquency position of the portfolio (refer note 3(g)(iii)).

*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.

*Insurance prepayment*

In relation to business customers who do not already have insurance, a policy is set up through a third party insurance provider. The Group pays for the insurance cover upfront and also recognises its income upfront which creates an insurance prepayment on the balance sheet. The Group subsequently collects the insurance premium from the customer on a monthly basis over the life of the rental agreement, which reduces the prepayment. Where a policy is cancelled, the unexpired premiums are refunded to the Group.

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date they are originated. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

*Financial guarantee contracts*

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

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

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

(iii) Impairment of assets

*Financial assets, including finance lease receivables and loan receivables*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence

indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit and loss when an asset is either non recoverable or has suffered arrears of at least 91 days. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit and loss.

#### *Non-financial assets*

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

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

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

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

### **(h) Intangible assets**

#### *Inertia Contracts*

As noted in note 3(g), where the Group is acting as an agent the Group recognises an intangible asset once it has an unconditional contractual right to receive income arising from equipment and rights to the hiring agreement at the end of minimum term. This inertia contract is measured at fair value at the inception of the hiring agreement, and is based on discounted cash flows expected to be derived from the sale or hire of the assets at the end of the minimum term. Subsequent to initial recognition the intangible asset is measured at cost. Amortisation is based on cost less estimated residual value. Individual intangible assets are assessed at each reporting period for impairment. Impaired contracts are offset against any unamortised deferred service income with the remainder recognised in profit and loss. At the end of the hiring minimum term the intangible asset is derecognised and the Group recognises the equipment as inventory at the corresponding value.

#### *Contract Rights*

The contractual rights obtained by the Group under financing agreements entered into with its funding partners and operating agreements with its retail partners constitute intangible assets with finite useful lives. These contract rights are recognised initially at cost and amortised over their

expected useful lives. In relation to funder contract rights, the expected useful life is the earlier of the initial contract minimum term or expected period until facility limit is reached. At each reporting date a review for indicators of impairment is conducted.

#### *Software development*

Software development 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 between 3 and 5 years. Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### **(i) Goodwill**

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGU (or group of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). The impairment loss recognised for goodwill is recognised immediately in the profit or loss and is not reversed in the subsequent period.

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

#### **(j) Employee benefits**

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

The Group pays defined contributions for post-employment benefit into a separate entity. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Termination benefits are recognised as an expense when the Group is committed, it is probable that settlement will be required, and they are capable of being reliably measured.

#### *Share-based payments*

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

#### **(k) Inventories**

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

ready for sale. Refer to note 3(h) in relation to inertia contracts where, at the end of the minimum lease term, the intangible asset is derecognised and the Group recognises the equipment as inventory at the corresponding value.

**(l) 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.

**(m) Income tax**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax payable for current and prior periods is recognised as a liability to the extent that it is unpaid. Carried forward tax recoverable on tax losses is recognised as a deferred tax asset where it is probable that future taxable profit will be available to offset in future periods.

*Deferred tax*

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

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

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

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

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

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

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the statement of profit and loss, 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.

**(n) Goods and services tax**

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

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

The net amount of VAT/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 VAT/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.

**(o) Foreign currency transactions**

*Foreign currency transactions*

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

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

**(p) 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 period.

*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.

**(q) 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.

**(r) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight line basis over the minimum term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the minimum 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 minimum lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

### **(s) Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the highest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 – intangible inertia assets;
- Note 21(b) – share based payment transactions; and
- Note 26(b) – financial instruments.

### **4. Critical accounting estimates and judgements**

The preparation of the consolidated financial statements in conforming to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses.

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

#### *Critical accounting estimates and assumptions*

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

- Note 15 – fair value at inception of inertia intangible assets and recoverable amount;
- Note 15 – measurement of deferred services income;
- Note 17 – measurement of the recoverable amount of cash generating units containing goodwill;
- Note 21(b) – measurement of share based payments, and
- Note 25 – value of financial guarantee contract net of loss provision;

### **5. Financial Risk Management**

#### **Overview**

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

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

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing financial risks, and the

management of capital. Further quantitative disclosures are included throughout this financial report.

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Group's activities. The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### **Credit Risk**

Credit risk refers to the risk that a counterparty or customer will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. The Chief Financial Officer and Group Financial Controller have day to day responsibility for managing credit risk within the risk appetite of the Board. Appropriate oversight occurs via monthly credit performance reporting to management and the Board.

The trading subsidiaries have an obligation to meet the cost of future bad debts incurred by its funders. The funder deposits discussed below represent security for that credit exposure and are recorded net of the Group's estimate of this credit risk. Further information is provided in Note 26.

To manage credit risk in relation to its customers, there is a credit assessment and fraud minimisation process delivered through the SmartCheck system. The credit underwriting system uses a combination of credit scoring and credit bureau reports as well as electronic identity verification and a review of an applicant's details against a fraud database. The credit policy is developed by the Head of Credit Risk and applied by the Credit Risk Committee with Board approval. The Head of Credit Risk monitors ongoing credit performance on different cohorts of customer contracts. In addition there exists a specialist collections function to manage any delinquent accounts.

Credit risk exposure to funder deposits are more concentrated, however the counterparties are regulated banking institutions and the credit risk exposure is assessed as low. The Group closely monitors the credit risk associated with each funder deposit counterparty.

### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The consolidated entity manages liquidity risk by maintaining adequate reserve facilities by continuously reviewing its facilities and cash flows. The Group ensures that it has sufficient cash on demand to meet expected operational expenses and financing subordination requirements. In addition, the Group maintains the operational facilities which are shown in note 20.

### **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 cash balances that are denominated in a currency other than the functional and presentation currency of the Group.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no foreign currency 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.

In respect of other monetary assets and liabilities denominated in foreign currencies, management ensures that the Group's net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address the short term imbalances (refer to Note 26 for further information).

#### *Interest rate risk*

As at 30 June 2016 the Group has drawn down £3.6m on its recently agreed Santander loan facility of £10m which runs for a further two years until at least May 2018. Exposure to interest rate risk on any corporate borrowings will be assessed by the Board and, where appropriate, the exposure to movement in interest rates may be hedged by entering into interest rate swaps, when considered appropriate by the management and the Board. As at 30 June 2016 there were £3m interest rate swaps in place with Santander UK plc to fix the future interest rate exposure on the Santander loan facility (see note 20). The mark to market value of these interest rate swaps as at 30 June 2016 was £15,000.

#### **Operational risk**

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

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

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

#### **Concentration risk**

The Company's main retail distribution partner in the UK is Dixons Carphone PLC and an exclusive contract for both business sales and consumer sales is in place until at least 2019. Should Dixons cease trading or terminate the exclusive contract, turnover would be reduced until alternative distribution partners were found.

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

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Total liabilities	29,200	4,732	5,989	7,411
Less cash and cash equivalents	(4,110)	(21,609)	(8,222)	(4,854)
Net debt	25,090	(16,877)	(2,233)	2,557
 Total capital	 29,110	 32,604	 19,300	 17,852
Net debt to capital	0.86	—	—	0.14

For the purposes of capital management, capital consists of share capital, reserves and retained earnings.

The Board assesses the Group's ability to pay dividends on a periodic basis, see note 21(c).

## 6. Consolidated Statement of Profit and Loss

Profit/(loss) from continuing operations is arrived at after crediting/(charging) the following items:

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>(a) Revenue</b>				
Finance lease income	—	—	143	909
Interest revenue – other entities	254	307	402	146
Income earned from sale of inertia assets	1,475	1,110	1,689	1,159
Extended rental income	2,382	1,484	4,032	3,092
Deferred service income	2,515	1,381	2,389	1,969
Fee revenue – customers	225	107	152	123
Commission income	3,516	1,181	2,900	4,415
 10,367	 5,570	 11,707	 11,813	
<b>(b) Other revenue</b>				
Services revenue – insurance	1,291	669	1,480	1,444
Other revenue	69	44	57	15
 1,360	 713	 1,537	 1,459	
<b>(c) Customer acquisition costs</b>				
Customer acquisition costs relate to sales and marketing expenses incurred during the ongoing promotional activity of the finance contracts to new and existing customers.				
<b>(d) Cost of inertia asset realised</b>				
Cost of inertia asset realised includes write down of assets held for secondary rental and net book value of the assets sold at date of disposal				

**(e) Other operating expenses**

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Employees benefits expense:				
– Payments to employees	(3,884)	(1,741)	(3,509)	(3,582)
– Employee superannuation costs	(204)	(101)	(226)	(262)
– Share-based payment expense	(51)	1	(101)	(107)
– Provision for employee entitlements	(48)	64	—	(22)
	<hr/>	<hr/>	<hr/>	<hr/>
Occupancy costs	(4,187)	(1,777)	(3,836)	(3,973)
Professional services	(242)	(128)	(291)	(307)
Finance charges	(888)	(360)	(844)	(488)
Other costs	(114)	(65)	(115)	(204)
	<hr/>	<hr/>	<hr/>	<hr/>
	(717)	(388)	(667)	(854)
	<hr/>	<hr/>	<hr/>	<hr/>
	(6,148)	(2,718)	(5,753)	(5,826)
	<hr/>	<hr/>	<hr/>	<hr/>

**(f) Depreciation and amortisation**

Depreciation	(116)	(51)	(89)	(136)
Amortisation	(170)	(100)	(255)	(568)
	<hr/>	<hr/>	<hr/>	<hr/>
	(286)	(151)	(344)	(704)
	<hr/>	<hr/>	<hr/>	<hr/>

**(g) Impairment losses**

Impairment losses on intangible assets (net)	(158)	(85)	(22)	(147)
Impairment losses finance leases and receivables	—	—	(249)	(243)
	<hr/>	<hr/>	<hr/>	<hr/>
	(158)	(85)	(271)	(390)
	<hr/>	<hr/>	<hr/>	<hr/>

## 7. Income Tax

### Amounts recognised in profit and loss

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Current income tax expense</b>				
Current income tax charge	(480)	(389)	(586)	(598)
Adjustment for prior period	5	(1)	—	95
<b>Deferred income tax expense</b>				
Origination and reversal of temporary differences	9	(1)	(38)	(42)
Adjustment for prior period	—	(2)	—	—
Total income tax (expense)	(466)	(393)	(624)	(545)
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

A reconciliation between tax expense and the product of accounting profit before income tax from continuing operations multiplied by the applicable income tax rate is as follows:

Accounting profit before tax	2,073	1,243	2,476	846
Statutory corporation rate	30.0%	30.0%	30.0%	30.0%
Tax charge at the statutory income tax rate	(622)	(373)	(742)	(254)
Effect of tax rates in foreign jurisdictions	229	53	203	232
Non-deductible expenses*	(56)	(66)	(72)	(611)
Overseas tax losses not recognised	(2)	(5)	(13)	(7)
Adjustments in respect of prior periods	(15)	(2)	—	95
Total income tax (expense)	(466)	(393)	(624)	(545)
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

### Deferred tax asset

Accrued expenses	18	36	14	26
Employee entitlements	59	39	34	46
Equity raising costs	141	137	66	31
Borrowing costs	12	7	3	1
Plant & equipment	35	35	—	—
Intangible assets	401	407	360	408
Investment in subsidiaries	2,409	—	—	—
Total	3,075	661	477	512
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

### Deferred tax liability

Plant & equipment	—	—	5	22
Intangible assets	463	472	444	504
Total	463	472	449	526
<b>Net deferred tax (liability)/asset for UK</b>				
Net deferred tax (liability)/asset for Australia	36	34	(89)	(114)
<b>Tax (receivable)/payable</b>	<b>2,576</b>	<b>155</b>	<b>117</b>	<b>100</b>
Current	2,454	55	407	(53)
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

The current tax (asset)/liability is recognised for income tax (receivable)/payable in respect of all periods to date.

\* In the year ending 30 June 2016 £554,000 of the non-deductible expenses relates to one off non-operating strategic review and advisory expenses as detailed in note 8.

## 8. Non-Operating Strategic Review and Advisory Expenses

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Current</b>				
Non-operating strategic review and advisory expenses	—	—	—	(1,846)

As previously announced the ThinkSmart Board has initiated a strategic review to unlock value in the UK business for shareholders and this activity remains ongoing. The above costs are directly related to this activity.

## 9. Discontinued Operations

On 12 December 2013, the Group announced that it had entered into an agreement to sell its Australian and New Zealand business to FlexiGroup. As set out in Note 13, settlement for the sale occurred on 31 January 2014. The Australian and New Zealand business was classified as held-for-sale as at 31 December 2013. The balance sheet of the disposal group held for sale as at 31 December 2013 is presented in Note 13.

	Notes	12m to 31-Dec- 13 £,000	6m to 30-Jun- 14 £,000	12m to 30-Jun- 15 £,000	12m to 30-Jun- 16 £,000
<b>(a) Results of discontinued operations</b>					
Total revenue		11,619	842	—	—
Expenses		(11,853)	(903)	—	—
Loss from operating activities		(234)	(61)	—	—
Income tax benefit/(expense)		56	(15)	—	—
Loss from operating activities, net of tax		(178)	(76)	—	—
Gain on sale of discontinued operation		—	8,617	—	—
Costs associated with sale of discontinued operation		—	(1,278)	—	—
Tax on gain on sale of discontinued operation		—	(1,898)	—	—
Profit/(loss) for the period		(178)	5,365	—	—
<b>(b) Cash flows from/(used in) discontinued operations</b>					
Net cash used in operating activities		201	160	—	—
Net cash from investing activities		(557)	(48)	—	—
Net cash from financing activities		(50)	116	—	—
Net cash flow for the period		(406)	228	—	—
<b>(c) Earnings per share for discontinued operations</b>					
Basic (pence per share)	29	(0.11)	3.34	—	—
Diluted (pence per share)	29	(0.11)	3.31	—	—
<b>(d) Effect of disposal on the financial position of the Group</b>					
Cash and cash equivalents		—	7,564	—	—
Trade and other receivables		—	655	—	—
Loan and lease receivables		—	25,443	—	—
Plant and equipment		—	239	—	—
Intangible assets		—	2,332	—	—
Deferred tax assets		—	855	—	—
Trade and other payables		—	(1,877)	—	—
Other interest bearing liabilities		—	(20,239)	—	—
Deferred tax liabilities		—	(265)	—	—
Net assets disposed of		—	14,707	—	—

## 10. Finance Lease Receivables

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
	£,000	£,000	£,000	£,000
<b>Current (no later than 1 year)</b>				
Gross investment in finance lease receivables	—	—	1,231	2,862
Unguaranteed residuals	—	—	20	230
Unearned future finance lease income on finance leases	—	—	(120)	(259)
	—	—	—	—
Net lease receivable	—	—	1,131	2,833
Allowance for losses	—	—	(7)	(37)
	—	—	—	—
	—	—	1,124	2,796
	—	—	—	—
<b>Non-current (later than 1 year, no later than 5 years)</b>				
Gross investment in finance lease receivables	—	—	1,303	1,561
Unguaranteed residuals	—	—	21	125
Unearned future finance lease income on finance leases	—	—	(164)	(141)
	—	—	—	—
Net lease receivable	—	—	1,160	1,545
Allowance for losses	—	—	(7)	(20)
	—	—	—	—
	—	—	1,153	1,525
	—	—	—	—

All finance leases detailed above have a minimum lease term of 2 years, see note 3(c) for further information on the accounting policy for these finance leases.

## 11. Other Current Assets

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
	£,000	£,000	£,000	£,000
Prepayments				
	275	419	426	610
Insurance prepayments	469	445	468	565
Accrued income (i)	675	682	757	785
Inventories	460	655	765	498
Sundry debtors	185	613	410	165
	—	—	—	—
	2,064	2,814	2,826	2,623
	—	—	—	—

## 12. Other Non-Current Assets

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
	£,000	£,000	£,000	£,000
Insurance prepayments				
	389	365	405	465
Accrued income (i)	559	560	658	646
Deposits held by funders (ii)	2,680	2,094	1,615	2,198
	—	—	—	—
	3,628	3,019	2,678	3,309
	—	—	—	—

- (i) Accrued income reflects brokerage commission earned from making insurance arrangements on behalf of leaseholders and is net of a clawback provision. The clawback provision for each reporting period has been estimated to be 30% based on historical experience, and is calculated on the gross commission receivable.

- (ii) Deposits held by funders for the servicing and management of their portfolios in the event of default. The deposits earn interest at market rates of return for similar instruments. See note 25 for further information.

### **13. Disposal Group Held for Sale**

On 12 December 2013, the Group announced that it had entered into an agreement to sell its Australian and New Zealand business to Flexi Group as mentioned in Note 9. Accordingly, these were classified as held for sale as at 31 December 2013. The sale was completed on 31 January 2014 for gross consideration of £22.55m (AUD42.4m).

#### **Assets and liabilities of disposal group held for sale**

At 31 December 2013, the disposal group was stated at its carrying value and comprised the following assets and liabilities:

	<b>12m to 31-Dec-13</b>	<b>6m to 30-Jun-14</b>	<b>12m to 30-Jun-15</b>	<b>12m to 30-Jun-16</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Cash and cash equivalents	6,506	—	—	—
Trade and other receivables	735	—	—	—
Loan and lease receivables	25,717	—	—	—
Plant and equipment	243	—	—	—
Intangible assets	2,340	—	—	—
Deferred tax assets	625	—	—	—
Tax receivable	1	—	—	—
<b>Assets held for sale</b>	<b>36,167</b>	<b>—</b>	<b>—</b>	<b>—</b>
Trade and other payables	2,185	—	—	—
Other interest bearing liabilities	20,132	—	—	—
<b>Liabilities held for sale</b>	<b>22,317</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### 14. Plant and Equipment

	Plant & Equipment (AU) £,000	Plant & Equipment (UK) £,000	Total £,000
<b>Gross carrying amount at cost</b>			
Balance at 1 January 2013	—	2,002	2,002
Additions	1	8	9
<b>Balance at 31 December 2013</b>	<b>1</b>	<b>2,010</b>	<b>2,011</b>
Additions	74	21	95
<b>Balance at 30 June 2014</b>	<b>75</b>	<b>2,031</b>	<b>2,106</b>
Effect of movement in exchange rate	(9)	—	(9)
Additions	—	211	211
<b>Balance at 30 June 2015</b>	<b>66</b>	<b>2,242</b>	<b>2,308</b>
Additions	—	147	147
<b>Balance at 30 June 2016</b>	<b>66</b>	<b>2,389</b>	<b>2,455</b>
<b>Amortisation</b>			
At 1 January 2013	—	(1,815)	(1,815)
Charge for the year	—	(110)	(110)
<b>At 31 December 2013</b>	<b>—</b>	<b>(1,925)</b>	<b>(1,925)</b>
Charge for the year	(10)	(41)	(51)
<b>At 30 June 2014</b>	<b>(10)</b>	<b>(1,966)</b>	<b>(1,976)</b>
Effect of movement in exchange rate	4	—	4
Charge for the year	(24)	(65)	(89)
<b>At 30 June 2015</b>	<b>(30)</b>	<b>(2,031)</b>	<b>(2,061)</b>
Effect of movement in exchange rate	2	—	2
Charge for the year	(22)	(111)	(133)
<b>At 30 June 2016</b>	<b>(50)</b>	<b>(2,142)</b>	<b>(2,192)</b>
<b>Net Book Value</b>			
At 31 December 2012	—	187	187
<b>At 31 December 2013</b>	<b>1</b>	<b>85</b>	<b>86</b>
<b>At 30 June 2014</b>	<b>65</b>	<b>65</b>	<b>130</b>
<b>At 30 June 2015</b>	<b>36</b>	<b>211</b>	<b>247</b>
<b>At 30 June 2016</b>	<b>16</b>	<b>247</b>	<b>263</b>

## 15. Intangible Assets

	Contract rights £,000	Software £,000	Distribution Network £,000	Intellectual Property £,000	Inertia Contracts £,000	Total £,000
<b>Gross carrying amount at cost</b>						
Balance at 1 January 2013	477	—	270	413	5,319	6,479
Effect of movement in exchange rate	—	—	—	(64)	—	(64)
Additions	302	—	—	—	2,645	2,947
Disposals/transfer to inventory	—	—	—	—	(1,090)	(1,090)
<b>Balance at 31 December 2013</b>	<b>779</b>	<b>—</b>	<b>270</b>	<b>349</b>	<b>6,874</b>	<b>8,272</b>
Effect of movement in exchange rate	—	—	—	6	—	6
Additions	96	76	—	—	1,161	1,333
Disposals/transfer to inventory	—	—	—	—	(1,067)	(1,067)
<b>Balance at 30 June 2014</b>	<b>875</b>	<b>76</b>	<b>270</b>	<b>355</b>	<b>6,968</b>	<b>8,544</b>
Effect of movement in exchange rate	—	—	—	(41)	—	(41)
Additions	96	651	—	—	2,278	3,025
Disposals/transfer to inventory	—	—	—	—	(2,996)	(2,996)
<b>Balance at 30 June 2015</b>	<b>971</b>	<b>727</b>	<b>270</b>	<b>314</b>	<b>6,250</b>	<b>8,532</b>
Effect of movement in exchange rate	—	—	—	42	—	42
Additions	179	1,951	—	—	1,691	3,821
Disposals/transfer to inventory	—	—	—	—	(1,838)	(1,838)
<b>Balance at 30 June 2016</b>	<b>1,150</b>	<b>2,678</b>	<b>270</b>	<b>356</b>	<b>6,103</b>	<b>10,557</b>
<b>Amortisation</b>						
At 1 January 2013	(324)	—	(270)	(258)	(223)	(1,075)
Effect of movement in exchange rate	—	—	—	43	—	43
Charge for the year	(147)	—	—	(20)	—	(167)
Impairment loss	—	—	—	—	(387)	(387)
<b>At 31 December 2013</b>	<b>(471)</b>	<b>—</b>	<b>(270)</b>	<b>(235)</b>	<b>(610)</b>	<b>(1,586)</b>
Effect of movement in exchange rate	—	—	—	(5)	—	(5)
Charge for the year	(87)	(4)	—	(9)	—	(100)
Impairment loss	—	—	—	—	(216)	(216)
<b>At 30 June 2014</b>	<b>(558)</b>	<b>(4)</b>	<b>(270)</b>	<b>(249)</b>	<b>(826)</b>	<b>(1,907)</b>
Effect of movement in exchange rate	—	—	—	29	—	29
Charge for the year	(163)	(75)	—	(17)	—	(255)
Impairment loss	—	—	—	—	(217)	(217)
<b>At 30 June 2015</b>	<b>(721)</b>	<b>(79)</b>	<b>(270)</b>	<b>(237)</b>	<b>(1,043)</b>	<b>(2,350)</b>
Effect of movement in exchange rate	—	—	—	(33)	—	(33)
Charge for the year	(190)	(365)	—	(16)	—	(571)
Impairment loss	—	—	—	—	(390)	(390)
<b>At 30 June 2016</b>	<b>(911)</b>	<b>(444)</b>	<b>(270)</b>	<b>(286)</b>	<b>(1,433)</b>	<b>(3,344)</b>
<b>Net Book Value</b>						
At 31 December 2012	153	—	—	155	5,096	5,404
<b>At 31 December 2013</b>	<b>308</b>	<b>—</b>	<b>—</b>	<b>114</b>	<b>6,264</b>	<b>6,686</b>
At 30 June 2014	317	72	—	106	6,142	6,637
At 30 June 2015	250	648	—	77	5,207	6,182
At 30 June 2016	239	2,234	—	70	4,670	7,213

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

Inertia contract assets acquired are measured at fair value based on the discounted cash flows expected to be derived from the sale or hire of the assets at the end of the minimum lease term. This measurement inherently introduces estimation uncertainty. The Group continually assesses current inertia proceeds and includes these in the estimation of inertia assets acquired. As such the fair value measurement for inertia contract assets has been categorised as Level 3 fair value. The following tables show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

#### **Valuation technique**

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

During the hiring minimum term the valuation is impaired for any assets that have been written off.

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

#### **Significant unobservable inputs**

The fair value is based on current levels of return (25%-30%) less an allowance for cancellations (10%-30%) and expected costs (5%-10%) of realisation.

The discount rate applied to the fair value is 13.21% pre-tax.

#### **Inter-relationship between key unobservable inputs and fair value measurement**

In order of financial impact the estimated fair value would increase (decrease) if:

- Expected sale value was higher (lower). A 1% reduction in the sale value would create a 1% deduction in the overall value of the asset.
- Expected secondary hire term was longer (shorter)
- Expected cancellations/bad debts were lower (higher)
- Expected realisation costs were lower (higher)
- Discount rate derived from group cost of capital was lower (higher)

## 16. Interest in Subsidiaries

Interest in Subsidiaries	Country of Incorporation	% of Equity			
		31 December 2013	30 June 2014	30 June 2015	30 June 2016
RentSmart Limited	UK	100	100	100	100
ThinkSmart Insurance Services Administration Ltd	UK	100	100	100	100
ThinkSmart Financial Services Ltd	UK	100	100	100	100
ThinkSmart Europe Ltd	UK	100	100	100	100
ThinkSmart UK Ltd	UK	100	100	100	100
SmartCheck Ltd	UK	100	100	100	100
SmartCheck SL	Spain	100	100	100	100
SmartPlan Spain SL	Spain	100	100	100	100
SmartCheck Italy Srl	Italy	100	100	100	100
ThinkSmart Inc	USA	100	100	100	100
ThinkSmart Employee Share Trust	Australia	100	100	100	100
ThinkSmart LTI Pty Limited	Australia	100	100	100	100
RentSmart Pty Ltd*	Australia	100	—	—	—
RentSmart (NZ) Pty Ltd*	Australia	100	—	—	—
RentSmart Servicing Pty Ltd*	Australia	100	—	—	—
RentSmart Unit Trust*	Australia	100	—	—	—
SmartCheck Pty Ltd*	Australia	100	—	—	—
ThinkSmart Finance Ltd*	Australia	100	—	—	—
ThinkSmart Trust*	Australia	100	—	—	—

\* The Group disposed of these entities on 31 January 2014.

## 17. Goodwill

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
	£,000	£,000	£,000	£,000
	2,332	2,332	2,332	2,332
Balance at beginning of financial period	2,332	2,332	2,332	2,332
Impairment	—	—	—	—
Balance at end of financial period	2,332	2,332	2,332	2,332

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

The goodwill arose on the acquisition of the UK business, RentSmart Limited. Further financial information relating to the UK business is shown within the segment information (note 30).

The recoverable amount of the cash-generating unit, being the UK business, was based on its value in use using business plan assumptions and a market discount rate and hence includes inherent estimation uncertainty. The recoverable amount of the unit was determined to be significantly higher than the carrying amount, therefore no impairment of goodwill is required, and no further sensitivity analysis is considered necessary.

The 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:

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
Annual growth in cash flows	2.50%	2.00%	2.00%	2.00%
Post tax discount rate	8.50%	8.72%	10.43%	8.46%
Terminal growth rate	2.00%	2.00%	2.00%	2.00%

## 18. Trade, Other Payables and Provisions

	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
	£,000	£,000	£,000	£,000
Trade and other payables	258	586	507	519
GST/VAT Payable	298	318	113	88
Other accrued expenses	674	892	540	1,110
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	1,230	1,796	1,160	1,717
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Provisions</b>				
Annual leave	74	43	40	64
Long service leave	121	86	72	87
Other	1	1	—	41
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	196	130	112	192
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Movement in provisions</b>				
<b>Annual and long service leave</b>				
Balance at beginning of period	328	195	129	112
Effect of exchange rate movement	—	4	(15)	15
additional provisions made in period	29	22	28	34
amounts used during the period	(162)	(92)	(30)	(10)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at end of period	195	129	112	151
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Other</b>				
Balance at beginning of period	1	1	1	—
Effect of exchange rate movement	—	—	(1)	2
additional provisions made in period	—	—	—	39
amounts used during the period	—	—	—	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at end of period	1	1	0	41
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 19. Deferred Service Income

	Notes	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Balance at beginning of period		3,084	3,003	2,751	2,541
Effect of movement in exchange rate					
Intangible inertia assets acquired	15	2,645	1,161	2,278	1,691
Reversal due to intangible asset impairment		(211)	(32)	(99)	(147)
Recognised in Consolidated Statement of Profit and Loss		(2,515)	(1,381)	(2,389)	(1,969)
		<u>3,003</u>	<u>2,751</u>	<u>2,541</u>	<u>2,116</u>
Deferred service income to be recognised within 12 months		2,087	1,855	1,646	1,297
Deferred service income to be recognised in greater than 12 months		916	896	895	819
		<u>3,003</u>	<u>2,751</u>	<u>2,541</u>	<u>2,116</u>

## 20. Other Interest bearing Liabilities

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Current				
– Loan advances net of deferred costs of raising facility (i)	—	—	1,077	2,182
Non-current				
– Loan advances net of deferred costs of raising facility (i)	—	—	692	1,190
Customer financing facilities				
– Loan advances net of deferred costs of raising facility	—	—	2,003	3,559
– Amount used	—	—	7,997	6,441
– Amount unused	—	—		
Total Facility (i)	—	—	10,000	10,000

(i) The credit facility provided by Santander UK PLC dated 15 December 2014 has a minimum life of 5 years and 3 months, including a 27 month run-off period and subject to extension.

Other finance facilities (business credit card):

– amount used	11	6	6	8
– amount unused	14	48	44	43
	<u>25</u>	<u>54</u>	<u>50</u>	<u>51</u>

## 21. Issued Capital

	12m to 31-Dec-13 Number	6m to 30-Jun-14 Number	12m to 30-Jun-15 Number	12m to 30-Jun-16 Number
<b>(a) Issued and paid up capital</b>				
<b>Number of shares</b>				
Balance at beginning of period	159,163,764	162,307,097	158,734,857	96,227,922
Issue of new shares for employee loan funded share plan	3,043,333	—	500,000	—
Issue of new shares for employee share-based payment	100,000	—	—	—
Cancellation of employee loan funded shares	—	(2,999,259)	—	(750,000)
Cancellation of shares through buyback	—	(572,981)	(63,006,935)	—
Balance at end of period	<u>162,307,097</u>	<u>158,734,857</u>	<u>96,227,922</u>	<u>95,477,922</u>
 <b>Value of shares</b>				
	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Balance at beginning of period	25,142	25,154	25,154	14,376
Issue of new shares for employee share-based payment	12	—	—	—
Proceeds from exercise of employee loan-funded share plan	—	128	—	—
Cancellation of shares through buyback	—	(128)	(10,490)	—
Costs associated to buyback	—	—	(288)	—
Balance at end of period	<u>25,154</u>	<u>25,154</u>	<u>14,376</u>	<u>14,376</u>

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

On a show of hands, every holder of Ordinary Shares present in the meeting in person or by proxy is entitled to one vote, and upon a poll each Share is entitled to one vote. The Company does not have authorised capital or par value in respect to its issued shares.

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

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

Options and loan-funded shares issued in previous periods:

- 3,033,333 loan-funded shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 9 August 2017. The fair value of these options at grant date was \$0.02-\$0.06. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
  - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
  - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.
- 750,000 options over ordinary shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 4 July 2016 until 3 July 2018. The fair value of these options at grant date was \$0.098-\$0.118. Vesting of the options is subject to achievement of the following performance conditions:
  - Tranche 1: 25% of options will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
  - Tranche 2: 25% of options will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.
- 3,243,333 loan-funded shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 3 July 2018 until 4 March 2019. The fair value of these options at grant date was \$0.098-\$0.118. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
  - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
  - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.
- 1,000,000 (series 1) and 1,000,000 (series 2) options over ordinary shares were issued 11 June 2014 and exercisable at \$0.3448 and \$0.4195 respectively, vesting and exercisable on 11 June 2017 until 11 June 2019. The fair value of these options at grant date was \$0.135-\$0.158 for series 1 and \$0.104-\$0.131 for series 2. Vesting of the options is subject to achievement of the following performance conditions:

#### Series 1

- Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.4827 is met in accordance with the performance conditions;
- Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.6206 is met in accordance with the performance conditions; and
- Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.7586 is met in accordance with the performance conditions.

#### Series 2

- Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.5873 is met in accordance with the performance conditions;
- Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.7551 is met in accordance with the performance conditions; and
- Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.9229 is met in accordance with the performance conditions.

- 333,333 options over ordinary shares were issued 12 December 2014 and exercisable at \$0.3471, vesting and exercisable on 12 December 2017 until 11 December 2019. The fair value of these options at grant date was \$0.053-\$0.08. Vesting of the options is subject to achievement of the following performance conditions:
 

Series 3

  - Tranche 1: 25% of options will vest if the share price hurdle of \$0.5527 is met in accordance with the performance conditions;
  - Tranche 2: 25% of options will vest if the share price hurdle of \$0.7107 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.8686 is met in accordance with the performance conditions.
- 2,000,000 options over ordinary shares were issued 31 March 2015 and exercisable at \$0.4021, vesting and exercisable on 31 March 2018 until 31 March 2020. The fair value of these options at grant date was \$0.071-\$0.096. Vesting of the options is subject to achievement of the following performance conditions:
  - Tranche 1: 25% of options will vest if the share price hurdle of \$0.4691 is met in accordance with the performance conditions;
  - Tranche 2: 25% of options will vest if the share price hurdle of \$0.6032 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.7372 is met in accordance with the performance conditions.
- 500,000 loan-funded shares were issued 18 September 2014 and exercisable at \$0.3620, vesting and exercisable on 18 September 2017 until 18 September 2019. The fair value of these options at grant date was \$0.133-\$0.17. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
  - Tranche 1: 25% of options will vest if the share price hurdle of \$0.5537 is met in accordance with the performance conditions;
  - Tranche 2: 25% of options will vest if the share price hurdle of \$0.7119 is met in accordance with the performance conditions; and
  - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.8701 is met in accordance with the performance conditions.

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

## Measurement of fair values

The fair value of employee share options is measured using a binomial model and loan-funded shares are measured using a Monte-Carlo simulation model.

Other measurement inputs include share price on measurement date, exercise price of the instrument, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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

	Employee options and loan-funded shares	Employee options and loan-funded shares	Employee options and loan- funded shares	Employee options and loan- funded shares	Employee options and loan- funded shares	Employee options and loan- funded shares
Period ending	31 December 2012	31 December 2013	30 June 2014	30 June 2015	30 June 2015	30 June 2015
Grant date	10/08/2012	4/07/2013	11/06/2014	22/5/2014	12/12/2014	31/03/2015
Fair value at grant date	\$0.02-	\$0.098-	\$0.104-	\$0.133-	\$0.053-	\$0.071-
Grant date share price	\$0.06	\$0.118	\$0.158	\$0.170	\$0.080	\$0.096
	\$0.19	\$0.27	\$0.375	\$0.390	\$0.315	\$0.365
			\$0.3448/			
Exercise price	\$0.1923	\$0.2652	\$0.4195	\$0.3620	\$0.3471	\$0.4021
Expected volatility	50%	55%	55%	55%	50%	45%
Option/loan share life	4 years	4 years	4 years	4.2 years	4 years	4 years
Dividend yield	2.14%	0%	1.6%	1.6%	4.7%	4.0%
Risk-free interest rate	2.5%	2.99%	3.1%	3.04%	2.35%	1.76%

The options and loan-funded shares outstanding at 30 June 2016 have an exercise price in the range of \$0.1923 to \$0.4195 and a weighted average contractual life of 2.95 years.

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

	12m to 31-Dec-13 Number	6m to 30-Jun-14 Number	12m to 30-Jun-15 Number	12m to 30-Jun-16 Number
Balance at beginning of the financial period	9,200,000	7,126,666	5,050,000	7,533,333
Granted during the financial period	3,993,333	2,000,000	2,833,333	—
Forfeited during the financial period	(5,265,000)	(4,076,666)	(350,000)	(950,000)
Expired during the financial period	(801,667)	—	—	—
Balance at end of the financial period	7,126,666	5,050,000	7,533,333	6,583,333
Exercisable at the end of the financial period	—	—	—	250,000

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

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Share options/loan-funded shares granted in 2011 – equity settled	(59)	—	—	—
Shares as remuneration granted in 2010, 2011 and 2012 – equity settled	61	15	—	—
Share options/loan-funded shares granted in 2012 – equity settled	13	(16)	—	—
Share options/loan-funded shares granted in 2013 – equity settled	38	1	29	24
Share options/loan-funded shares granted in 2014 – equity settled	—	—	46	57
Share options/loan-funded shares granted in 2015 – equity settled	—	—	28	26
Total expense recognised as employee costs	53	0	103	107
Less discontinued operations	2	(22)	—	—
Total expense recognised from continuing operations	51	22	103	107

### (c) Dividends

Dividends paid or declared by the Company to members during the periods was as follows:

	Pence per share	Total amount £	Franked/ unfranked	Date Paid
Special dividend	1.97	3,113,238	Franked	19-Feb-14
Special dividend	4.25	2,122,880	Unfranked	31-Jan-15
Special dividend	2.12	1,061,440	Franked	31-Jan-15
Ordinary dividend	1.70	1,593,328	Franked	09-Sep-15
Ordinary dividend	0.53	500,760	Franked	21-Mar-16

## 22. Notes to the Cash Flow Statement

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 period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

### (a) Reconciliation to the cash flow statement

	Notes	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Cash balance comprises:</b>					
Available cash and cash equivalents		4,005	21,293	8,009	4,737
Restricted cash	3(d)	105	316	213	117
		<u>4,110</u>	<u>21,609</u>	<u>8,222</u>	<u>4,854</u>

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 26.

**(b) Reconciliation of the profit/(loss) for the period to net cash flows from operating activities**

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Profit after tax</b>	1,429	6,215	1,852	301
Add back non-cash and non-operating items:				
Depreciation	235	59	89	136
Amortisation	1,537	199	274	568
Impairment losses on intangible assets	—	—	—	243
Impairment losses on finance lease receivables	1,439	35	22	147
Foreign currency loss/(gain) unrealised	(30)	(136)	(9)	29
Equity settled share-based payment	186	4	101	107
(Profit) on disposal of discontinued operation	—	(8,617)	—	—
Costs associated with disposal of discontinued operation	—	1,278	—	—
Income tax paid on discontinued operations	—	1,757	—	—
Other non-cash items	—	152	—	—
<b>(Increase)/decrease in assets:</b>				
Trade receivables and deposits held with funders	(2,038)	(555)	35	(84)
Prepayments	(17)	459	—	—
Finance lease receivable	—	—	(2,122)	22
Deferred tax asset	(1,643)	(13)	39	40
Other assets (CSB#)	17	(292)	573	(129)
Rental asset inventory	(50)	392	(96)	325
<b>Increase/(decrease) in liabilities:</b>				
Trade and other creditors	(1,568)	461	(492)	(49)
Deferred service revenue	—	—	—	(675)
Provisions	—	—	—	56
Provision for income tax	2,502	65	347	(451)
Deferred tax liability	(929)	(4)	—	—
Other payables	(117)	(69)	—	399
<b>Net cash from operating activities</b>	<b>953</b>	<b>1,390</b>	<b>613</b>	<b>985</b>
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

**23. Leases and Hire Purchase Obligations**

**Operating leases – leasing arrangements**

Operating leases relate to office facilities with lease terms of up to 6 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period. No provisions have been recognised in respect of non-cancellable operating leases.

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Non-cancellable operating lease payments:				
No later than 1 year	243	96	96	96
Later than 1 year and not later than 5 years	208	383	383	383
More than 5 years	—	351	208	112
	<b>451</b>	<b>830</b>	<b>687</b>	<b>591</b>
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

## 24. Remuneration of Auditor

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
<b>Audit and review services:</b>				
<i>Auditor of the Company:</i>				
Audit and review of financial reports (Australia)	145	27	27	26
Audit and review of financial reports (Overseas)	62	55	84	84
Assurance services associated with disposal of Australian business	—	32	—	—
	<b>207</b>	<b>114</b>	<b>111</b>	<b>110</b>
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
<b>Services other than statutory audit:</b>				
Tax compliance and advisory services	86	16	6	55
Other regulatory services*	6	11	32	18
Advisory services	20	13	4	13
Transaction advisory services	—	—	—	380
	<b>112</b>	<b>40</b>	<b>42</b>	<b>466</b>
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

\*Relates to statutory accounting requirements within Spain and Italy.

The Group's auditors are KPMG.

## 25. Commitments and Contingent liabilities

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Leases where Group acts as agent (off balance sheet)	26,954	24,118	25,491	20,899
Gross capital deposited with STB	4,480	4,093	4,189	3,426
Less provision for delinquent leases	(1,800)	(1,999)	(2,574)	(1,228)
Deposits held by funders	<b>2,680</b>	<b>2,094</b>	<b>1,615</b>	<b>2,198</b>
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

Under the terms of the UK current funding agreement with Secure Trust Bank (STB), the group is obliged to purchase delinquent leases (contracts in arrears for 91 days) from the funder at the funded amount. The Group has entered into a financial guarantee contract with STB for which the Group has provided capital to support future delinquent leases and at the same time recognised a provision against this deposit being its estimate of the funded amount of these leases that are likely to become delinquent in the future and will therefore not be recoverable from STB. The Group estimates this amount based on historical loss experience for assets with similar characteristics.

The net deposit held by funders is recognised as an asset on the Group's balance sheet within other assets (see note 12).

## 26. Financial Instruments

### (a) Interest rate risk

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

	Notes	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Cash and cash equivalents	22(a)	4,110	21,609	8,222	4,854
Deposits held by funder		2,680	2,094	4,189	3,426
Other interest bearing liabilities		—	—	(2,003)	(3,559)
Net financial assets		6,790	23,703	10,408	4,721

#### Sensitivity analysis

A change in 1% in interest rates would have increased or decreased the Group's profit from continuing operations by the amounts shown below

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Effect of 1% increase in rates	68	237	104	47
Effect of 1% decrease in rates	(68)	(237)	(104)	(47)

### (b) Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities recorded in the financial statements are not materially different to their fair values.

#### Fair value hierarchy

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

The different levels have been defined as follows:

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

Key assumptions in the valuation of the instruments were limited to interpolating interest rates for certain future periods where there was no observable market data. The majority of the financial instruments are measured at amortised cost. The only financial instrument measured at fair value is the interest rate swaps with Santander UK plc. This is a level 2 financial instrument with a fair value of £15,000 at 30 June 2016.

**(c) Credit risk management**

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

	Notes	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Cash and cash equivalents	22(a)	4,110	21,609	8,222	4,854
Trade receivables		647	638	541	336
Loan and lease receivable (current)	10	—	—	1,131	2,833
Loan and lease receivable (non-current)	10	—	—	1,160	1,545
Prepayments (current)		1,144	1,127	1,225	1,350
Sundry debtors	11	185	613	410	165
Other non-current assets	12	3,628	3,019	2,678	3,309
		<u>9,714</u>	<u>27,006</u>	<u>15,367</u>	<u>14,392</u>

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

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Australia	597	17,817	1,544	210
UK	8,960	9,041	13,786	14,166
Other	157	148	37	16
	<u>9,714</u>	<u>27,006</u>	<u>15,367</u>	<u>14,392</u>

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

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Banks (i)	4,110	21,609	8,222	4,854
Funders	2,730	2,094	1,615	2,198
Insurance partners (ii)	2,093	2,053	2,288	2,461
Retail customers	—	—	2,292	4,378
Others	781	1,250	950	501
	<u>9,714</u>	<u>27,006</u>	<u>15,367</u>	<u>14,392</u>

- (i) Cash and cash equivalents are held with banks with S&P ratings of A- and AA-.
- (ii) In the current financial reporting period, 100% (prior year: 100%) of the total prepayment relates to RentSmart Limited's upfront insurance premium payments to Allianz on behalf of the rental customer. The premiums are recovered from the customer on a monthly basis. In the event the customer defaults, the policy is cancelled and Allianz refunds the unexpired premium.

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

	<b>31-Dec-13 £,000</b>	<b>30-Jun-14 £,000</b>	<b>30-Jun-15 £,000</b>	<b>30-Jun-16 £,000</b>
Not past due	—	209	2,458	4,524
Past due 0-30 days	599	393	310	118
Past due 31-120 days	38	33	23	29
Past due 121-365 days	9	3	42	44
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>646</b>	<b>638</b>	<b>2,833</b>	<b>4,715</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The ageing of the Group's impairment provision against its trade and lease receivables at the reporting date was:

	<b>31-Dec-13 £,000</b>	<b>30-Jun-14 £,000</b>	<b>30-Jun-15 £,000</b>	<b>30-Jun-16 £,000</b>
Not past due	—	—	11	21
Past due 0-30 days	—	—	2	14
Past due 31-120 days	15	33	11	39
Past due 121-365 days	5	—	35	24
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>20</b>	<b>33</b>	<b>59</b>	<b>98</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The movement in the allowance for impairment in respect of trade and lease receivables during the financial period was as follows:

	<b>31-Dec-13 £,000</b>	<b>30-Jun-14 £,000</b>	<b>30-Jun-15 £,000</b>	<b>30-Jun-16 £,000</b>
Balance at beginning of period	47	20	33	59
Impairment loss recognised	64	35	110	198
Bad debt written off	(80)	(20)	(83)	(159)
Effect of exchange rate movement	5	(2)	(1)	—
Transfer to assets held for sale	(16)	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of period	<b>20</b>	<b>33</b>	<b>59</b>	<b>98</b>
	<hr/>	<hr/>	<hr/>	<hr/>

Trade and lease receivables are reviewed and considered for impairment on a periodic basis, based on the number of days outstanding and number of payments in arrears.

#### **(d) Currency risk management**

##### *Exposure to currency risk*

The Group's exposure to foreign currency risk is limited to the cash balances held by the Australian parent ThinkSmart Limited denominated in Australian Dollars:

	<b>31-Dec-13 £,000</b>	<b>30-Jun-14 £,000</b>	<b>30-Jun-15 £,000</b>	<b>30-Jun-16 £,000</b>
Cash and cash equivalents	597	17,708	1,518	149
AUD/GBP period end exchange rate	0.5429	0.5531	0.4885	0.5549
10% strengthening of AUD	(60)	(1,771)	(152)	(15)
10% weakening of AUD	60	1,771	152	15

**(e) Liquidity risk management**

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

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Trade and other payables	1,230	1,796	1,160	1,717
Other interest bearing liabilities	—	—	2,003	3,559
	<hr/>	<hr/>	<hr/>	<hr/>
	1,230	1,796	3,163	5,276
	<hr/>	<hr/>	<hr/>	<hr/>
Less than 1 year	1,230	1,796	2,287	4,020
1-2 years	—	—	876	1,256
	<hr/>	<hr/>	<hr/>	<hr/>
	1,230	1,796	3,163	5,276
	<hr/>	<hr/>	<hr/>	<hr/>

**27. Related Party Disclosures**

As at 30 June 2016 the following were Key Management Personnel of the Group:

***Executive Chairman***

N Montarello

***Executive Directors***

F de Vicente (Chief Executive Officer)

K Jones (Group Strategy and Development Director)

***Non-Executive Directors***

D Griffiths (deputy Chairman)

P Gammell (appointed 23 May 2016)

***Executives***

G Halton (Chief Financial Officer)

D Twigg (Chief Operating Officer (Credit and Operations))

D Fletcher (Sales and Business Development Director) appointed 7 December 2015

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

	31-Dec-13 £,000	30-Jun-14 £,000	30-Jun-15 £,000	30-Jun-16 £,000
Short-term employee benefits	1,284	531	1,041	1,351
Post-employment benefits	73	221	31	33
Other long-term benefits	9	2	3	5
Share-based payments	35	33	94	105
	<hr/>	<hr/>	<hr/>	<hr/>
	1,401	787	1,169	1,494
	<hr/>	<hr/>	<hr/>	<hr/>

**28. Subsequent Events**

As set out in the ASX announcement on 25 July 2016, the Company entered into an agreement to undertake a placement of 20 million Ordinary Shares to a fund managed by Henderson Global Investors Limited at a price of 25 pence per share (approximately 42 cents per share). In addition, as set out in the ASX announcement on 7 November 2016, the Company bought back (by way of an off-market tender buy back), in total, 9,999,178 Ordinary Shares at a price of 38 cents per Ordinary Share.

## 29. Earnings per Share

	12m to 31-Dec-13 £,000	6m to 30-Jun-14 £,000	12m to 30-Jun-15 £,000	12m to 30-Jun-16 £,000
Profit after tax attributable to ordinary shareholders (continuing operations)	1,607	850	1,852	301
Profit after tax attributable to ordinary shareholders (discontinued operations)	(178)	5,365	—	—
Profit after tax attributable to ordinary shareholders (basic)	1,429	6,215	1,852	301
	12m to 31- Dec-13 Number	6m to 30-Jun-14 Number	12m to 30- Jun-15 Number	12m to 30- Jun-16 Number
Weighted average number of basic ordinary shares	159,259,106	160,688,734	127,672,035	95,560,114
Weighted average number of diluted ordinary shares	159,919,271	161,844,290	129,555,185	95,685,114
Earnings per Share	12m to 31-Dec-13	6m to 30-Jun-14	12m to 30-Jun-15	12m to 30-Jun-16
Basic earnings/(loss) per share (pence)	0.90	3.87	1.45	0.31
Diluted earnings/(loss) per share (pence)	0.89	3.84	1.43	0.31
<b>Earnings per share from continuing operations:</b>				
Basic earnings/(loss) per share (cents)	1.01	0.53	1.45	0.31
Diluted earnings/(loss) per share (cents)	1.00	0.53	1.43	0.31
<b>Earnings per share from discontinued operations:</b>				
Basic earnings/(loss) per share (cents)	(0.11)	3.34	—	—
Diluted earnings/(loss) per share (cents)	(0.11)	3.31	—	—

## 30. Segment Information

The Group currently has one reportable segment which comprise the Group's core business unit (UK). Head office and other unallocated corporate functions are shown separately. Discontinued operations relating to the sale of the Australian and New Zealand trading companies, sold on 31 January 2014, are disclosed separately within note 9 and note 13. For the segment, the Board and the CEO review internal management reports on a monthly basis. The composition of the reportable segment is as follows:

### UK:

- ThinkSmart Europe Ltd
- RentSmart Ltd
- ThinkSmart Insurance Services Administration Ltd
- ThinkSmart Financial Services Ltd

### Corporate and unallocated:

- ThinkSmart Limited
- SmartCheck SL
- SmartCheck Italy Srl
- ThinkSmart Inc

	31-Dec-13 £,000			30-Jun-14 £,000			30-Jun-15 £,000			30-Jun-16 £,000		
	Corporate and unallocated		Total									
	UK	unallocated	10,367	UK	unallocated	5,570	UK	unallocated	11,571	UK	unallocated	11,680
	10,266	101	1,360	713	—	713	1,673	—	1,673	1,592	—	1,592
Revenue												
Other revenue												
Total revenue	11,626	101	11,727	6,035	248	6,283	12,977	267	13,244	13,259	13	13,272
Customer acquisition costs	(3,057)	(5)	(3,062)	(2,085)	—	(2,085)	(4,399)	—	(4,399)	(3,662)	—	(3,662)
Other operating expenses	(3,331)	(2,816)	(6,147)	(1,726)	(993)	(2,719)	(3,983)	(1,763)	(5,746)	(4,221)	(1,497)	(5,718)
Depreciation and amortisation	(259)	(28)	(287)	(132)	(19)	(151)	(303)	(41)	(344)	(665)	(38)	(703)
Impairment losses	(158)	—	(158)	(85)	—	(85)	(272)	—	(272)	(390)	—	(390)
Interest expense	—	—	—	—	—	—	(7)	—	(7)	(107)	—	(107)
Non-operating strategic review and advisory expenses	—	—	—	—	—	—	—	—	—	—	(1,846)	(1,846)
Reportable segment profit/(loss) before income tax	4,821	(2,748)	2,073	2,007	(764)	1,243	4,013	(1,537)	2,476	4,214	(3,368)	846
Reportable segment current assets	5,044	1,755	6,799	7,068	17,961	25,029	11,051	1,618	12,669	10,318	250	10,568
Reportable segment non-current assets	8,716	6,628	15,344	12,022	285	12,307	12,467	153	12,620	14,579	116	14,695
Reportable segment liabilities	3,818	3,065	6,883	4,485	247	4,732	5,790	199	5,989	6,483	928	7,411
Capital expenditure	309	—	309	194	75	269	958	—	958	2,280	—	2,280

### 31. Opening Balance Sheet

	01-Jan-13 £,000
<b>Current assets</b>	
Cash and cash equivalents	11,936
Trade receivables	1,802
Loan and lease receivables	25,175
Other current assets	2,295
	<hr/>
<b>Total current assets</b>	41,208
<b>Non-current assets</b>	
Loan and lease receivables	14,945
Plant and equipment	570
Intangible assets	9,051
Goodwill	2,331
Deferred tax assets	1,512
Other non-current assets	4,271
	<hr/>
<b>Total non-current assets</b>	32,680
<b>Total assets</b>	73,888
<b>Current liabilities</b>	
Trade and other payables	4,269
Deferred service income	1,914
Other interest bearing liabilities	22,048
Tax payable	332
Provisions	390
	<hr/>
<b>Total current liabilities</b>	28,953
<b>Non-current liabilities</b>	
Deferred service income	1,171
Other interest bearing liabilities	12,896
	<hr/>
<b>Total non-current liabilities</b>	14,067
<b>Total liabilities</b>	43,020
<b>Net assets</b>	30,868
<b>Equity</b>	
Issued capital	25,142
Reserves	1,174
Accumulated profits	4,552
	<hr/>
<b>Total equity</b>	30,868

## PART 4

### Additional Information

#### 1 Responsibility

The Directors, whose names appear on page 7 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All of the Directors accept individual and collective responsibility for compliance with the AIM Rules and the Corporations Act.

#### 2 The Company

- 2.1 The Company was incorporated and registered as a public company in Western Australia under the Corporations Act on 4 April 2000. The registered office of the Company is at Suite 5 531 Hay Street, Subiaco, WA 6008, Australia.
- 2.2 The principal activity of the Company is to act as the holding company of the Group, whose principal activities are described more fully in Part 1 of this document.
- 2.3 The Group's principal place of business is 7th Floor, Oakland House, Talbot Road, Old Trafford, Manchester, England, M16 0PQ. The telephone number of the Group's principal place of business is 0161 333 2400.
- 2.4 The Company is governed by the Constitution, and the principal legislation under which the Company operates is the Corporations Act and regulations made under the Corporations Act. The liability of the Company's members is limited.
- 2.5 With effect from Admission, trading in the Company's Ordinary Shares will be suspended on the ASX and, shortly afterwards, the Company will be formally removed from the official list of the ASX. From that time, the ASX Listing Rules will cease to apply to the Company (save as is set out in Section 22 of Part 1 of this document), but the Company will instead be subject to the AIM Rules.
- 2.6 As an Australian-incorporated company, the Company will continue to be subject to Australian laws and, in particular, the Corporations Act. It will continue to prepare and lodge audited financial statements with the Australian companies regulator. Some of the material aspects of the Australian laws that will continue to apply to the Company are summarised in this document.

#### 3 Group Structure

The Company is the holding company (as such term is defined in the Corporations Act) of the Subsidiaries. The following table contains details of the Company's significant subsidiaries, all of which are directly or indirectly 100% owned by it:

Company Name	Principal activity	Country of incorporation
ThinkSmart Europe Limited	Principal operating company of the Group	England
ThinkSmart Financial Services Limited	Lessor of leases funded by Santander	England
ThinkSmart Insurance Services Administration Limited	Provides insurance administration services in respect of the equipment insurance offered by the Group to its customers	England
RentSmart Limited	Primary trading company of the Group	England
ThinkSmart UK Limited	Counterparty to the STB Invoice Discounting Agreement	England
SmartCheck Limited	Dormant	England
SmartPlan Spain SL	Dormant	Spain

<b>Company Name</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
SmartCheck SL	Dormant	Spain
SmartCheck Italy SRL	Dormant	Italy
ThinkSmart Inc	Dormant	USA
ThinkSmart LTI Pty Ltd	Dormant	Australia

#### 4 **Share Capital**

4.1 Set out below are details of the issued share capital of the Company (i) as at the date of this document and (ii) as it will be immediately following Admission:

	<b>Present Number</b>	<b>Immediately following Admission Number</b>
<b>Ordinary Shares</b>	105,478,744	105,478,744

- 4.2 As at 30 June 2016, the Company had on issue 95,477,922 Ordinary Shares. There is no limit on the number of Ordinary Shares that can be issued by the Company. The Ordinary Shares do not have par or nominal value.
- 4.3 No Ordinary Shares were issued during FY16.
- 4.4 As at 30 June 2016, the Company's Australian subsidiary, ThinkSmart LTI Pty Limited, held 2,500,000 Ordinary Shares as trustee of the Company's LTIP. 750,000 of these Ordinary Shares were bought back on 16 August 2016 and subsequently cancelled as they had lapsed in accordance with the terms of the LTIP.
- 4.5 As at 30 June 2016, the Company had the following options on issue, each conferring the right to be issued one new Ordinary Share on the terms set out below (subject to the satisfaction of certain performance conditions):
- |           |  |
|-----------|--|
| 500,000   | Employee options exercisable at A\$0.2652 by 03/07/2018 (after which point the options shall be cancelled) |
| 1,000,000 | Employee options exercisable at A\$0.3448 by 10/06/2019 (after which point the options shall be cancelled) |
| 1,000,000 | Employee options exercisable at A\$0.4195 by 10/06/2019 (after which point the options shall be cancelled) |
| 2,000,000 | Employee options exercisable at \$0.4021 by 31/3/2020 (after which point the options shall be cancelled)   |
| 333,333   | Employee options exercisable at A\$0.3471 by 11/12/2019 (after which point the options shall be cancelled) |
- 4.6 As at 7 November 2016, Alphagen Capital Limited (a fund managed by Henderson Global Investors Limited) held 20,000,000 Ordinary Shares in the Company.
- 4.7 Other than as set out in this document, there are no rights to acquire, or obligations or undertakings to issue, Ordinary Shares.

4.8 A history of the Company's share capital between 1 July 2013 and 30 June 2016 is set out below:

<b>Date</b>	<b>Issued/Cancelled</b>	<b>Class of capital</b>	<b>Amount</b>
As at 1 July 2013	N/A	Ordinary Shares	159,263,764
	N/A	Employee options exercisable at \$0.62 by 31/12/2013	2,166,667
	N/A	Employee options exercisable at \$1.11 by 31/12/2014	1,833,334
	N/A	Employee options exercisable at \$0.84 by 31/12/2015	1,966,666
	N/A	Employee options exercisable at \$0.1923 by 09/08/2017	400,000
4 July 2013	Issued	Ordinary Shares	3,043,333
	Issued	Employee options exercisable at \$0.2652 by 03/07/2018	750,000
6 September 2013	Cancelled	Employee options exercisable at \$0.62 by 31/12/2013	1,365,000
	Cancelled	Employee options exercisable at \$1.11 by 31/12/2014	1,833,334
	Cancelled	Employee options exercisable at \$0.84 by 31/12/2015	250,000
	Cancelled	Employee options exercisable at \$0.1923 by 09/08/2017	100,000
	Cancelled	Ordinary Shares with respect to on-market buy back announced 20/02/2014	572,981
10 April 2014	Cancelled	Employee options exercisable at \$0.62 by 31/12/2013	801,667
	Cancelled	Employee options exercisable at \$0.84 by 31/12/2015	1,716,666
12 May 2014	Cancelled	Ordinary Shares with respect to employee share scheme buy back announced 28/04/2014	2,999,259
12 June 2014	Issued	Employee options exercisable at \$0.3448 by 10/06/2019	1,000,000
	Issued	Employee options exercisable at \$0.4195 by 10/06/2019	1,000,000
28 August 2014	Cancelled	Ordinary Shares with respect to on-market buy back announced 20/02/2014	9,283,115
18 September 2014	Cancelled	Ordinary Shares with respect to on-market buy back announced 20/02/2014	3,071,177
18 September 2014	Issued	Ordinary Shares	500,000
	Cancelled	Employee options exercisable at \$0.1923 by 09/08/2017	100,000
	Cancelled	Employee options exercisable at \$0.2652 by 03/07/2018	250,000
11 December 2014	Cancelled	Ordinary Shares with respect to on-market buy back announced 24 October 2014	116,072

<b>Date</b>	<b>Issued/Cancelled</b>	<b>Class of capital</b>	<b>Amount</b>
12 December 2014	Issued	Employee options exercisable at \$0.3471 by 11/12/2019	333,333
17 December 2014	Cancelled	Ordinary Shares with respect to on-market buy back announced 24/10/2014	537,609
27 January 2015	Cancelled	Ordinary Shares with respect to off-market buy back announced 18/11/2014	49,998,962
2 April 2015	Issued	Employee options exercisable at \$0.4021 by 31/03/2020	2,000,000
10 August 2015	Cancelled	Employee options exercisable at \$0.1923 by 09/08/2017	200,000
30 June 2016	Cancelled	Ordinary Shares	750,000
As at 30 June 2016	N/A N/A N/A N/A N/A N/A	Ordinary Shares Employee options exercisable at \$0.2652 by 03/07/2018 Employee options exercisable at \$0.3448 by 10/06/2019 Employee options exercisable at \$0.4195 by 10/06/2019 Employee options exercisable at \$0.4021 by 31/3/2020 Employee options exercisable at \$0.3471 by 11/12/2019	95,477,922 500,000 1,000,000 1,000,000 2,000,000 333,333

- 4.9 The Ordinary Shares in issue on Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form (in the form of Depositary Interests) through CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Ordinary Shares may not be held directly through CREST and may only be held through CREST in the form of Depositary Interests.
- 4.10 The records in respect of Ordinary Shares held in uncertificated form will be maintained by Euroclear and the Registrar.
- 4.11 Save as disclosed in this section 4, as at the date of this document:
- 4.11.1 the Company did not hold any treasury shares and no Ordinary Shares were held by, or on behalf of, any member of the Group;
  - 4.11.2 no shares have been issued otherwise than as fully paid;
  - 4.11.3 the Company had no outstanding convertible securities, exchangeable securities or securities with warrants;
  - 4.11.4 the Company has given no undertaking to increase its share capital; and
  - 4.11.5 no capital of any member of the Group is under option or is agreed, conditionally or unconditionally, to be put under option.

## 5 **The share buy back**

The Company undertook a buy-back of up to 10,000,000 Ordinary Shares which completed on 7 November 2016 (the “**Tender Buy-Back**”).

The Tender Buy-Back was conducted as a ‘tender-style’ off-market buy-back under which the Company invited Shareholders to tender some or all of their Ordinary Shares for sale to the Company at specified prices in a range of between A\$0.38 and A\$0.55 per Ordinary Share.

The Company sought and obtained Shareholder approval for the Tender Buy-Back for the purposes of the Corporations Act at an extraordinary general meeting held on 29 September 2016. The Company also sought and obtained relief from the Australian Securities & Investments Commission and from the ASX in respect of various aspects of the Tender Buy-Back.

Based on tenders received from Shareholders, and in accordance with the terms of the Tender Buy-Back, the Company determined to buy back 9,999,178 Ordinary Shares at A\$0.38 per share, for total consideration of A\$3.8 million. As the total number of Ordinary Shares tendered at A\$0.38 (or tendered on the basis that the Shareholder would receive the final price determined in accordance with the tender process) was greater than 10,000,000, a scale back was applied in accordance with the terms of the Tender Buy-Back with the final result being that 9,999,178 shares were bought back. Subject to the qualifications to the scale back (relating to priority allocations and small residual holdings), Shareholders who tendered their Ordinary Shares at A\$0.38 had 41.46% of the Ordinary Shares they tendered bought back.

The Ordinary Shares bought back were cancelled in accordance with the requirements of the Corporations Act on 7 November 2016.

## **6 Summary of the Constitution**

**6.1** The constitution of the Company (“**Constitution**”) contains, amongst others, provisions to the following effect. Note that provisions of the Constitution relating to rights attaching to shares are set out in section 13 of part 1 of this document.

### **6.2 Directors – appointment and removal**

The minimum number of Directors is three and the maximum is fixed by the Directors but may not be more than 12 unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that one third of the Directors plus any Director who has held office for three or more years or three or more annual general meetings (excluding the managing Director) retire at each annual general meeting of the Company. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of the Company.

### **6.3 Directors – voting**

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the chairman of the Board has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

### **6.4 Directors – remuneration**

The Directors, other than the managing Director or an executive Director, shall be paid by way of fees for services the maximum aggregate sum as may be approved from time to time by the Company in general meeting. The current maximum aggregate annual sum approved by Shareholders at a general meeting is \$600,000. Any change to that aggregate annual sum needs to be approved by Shareholders. The Constitution also makes provision for the Company to pay all reasonable expenses of Directors in attending meetings and carrying out their duties.

### **6.5 Directors’ and officers’ indemnity**

**6.5.1** The Company, to the extent permitted by law, indemnifies each officer of the Company on a full indemnity basis against any liability (including costs and expenses) incurred by that person as an officer of the Company or a related body corporate of the Company.

**6.5.2** The Company, to the extent permitted by law, may insure a Director, company secretary, or any officer of the Company or its subsidiaries against a liability incurred by such person in the person’s relevant capacity, in the course of acting in

connection with the affairs of the Company or subsidiary or arising out of the person holding office, unless the liability arises out of conduct involving wilful breach of duty in relation to the Company or a contravention of certain provisions of the Corporations Act. The Company may also insure such person for costs and expenses incurred by that person in defending or resisting proceedings whatever the outcome.

#### **6.6 Application of the Corporations Act, rules and relevant regulations**

6.6.1 The Rules applicable to the Company are defined in the Constitution as the rules of ASX (while the Company's Ordinary Shares are listed on the ASX) or the rules of AIM (while the Company's Ordinary Shares are admitted to trading AIM), as well as the rules of any other exchange on which the Company's Ordinary Shares are admitted to trading. For so long as the Company's Ordinary Shares are listed on the ASX or its Ordinary Shares are admitted to trading on AIM:

- 6.6.1.1 it may not do anything prohibited by the Rules;
- 6.6.1.2 the Constitution does not prevent anything being done or not done that the Rules require, and authorises the Company to do or not do those things;
- 6.6.1.3 the Constitution is deemed to include or not include any provisions to the extent required by the Rules; and
- 6.6.1.4 the Company is required to comply with and the Constitution is subject to the regulations of CREST or CHESS (the ASX equivalent to CREST) as the case may be.

#### **6.7 Amendment**

The Constitution may be amended only by a special resolution passed by at least three quarters of the votes cast by Shareholders entitled to vote on the resolution. At least 28 days' written notice specifying the intention to propose the resolution must be given

### **7 Directors' and Other Interests**

7.1 As at the date of this document and immediately following Admission, interests of the Directors and their families (within the meaning set out in the AIM Rules) in the Company are as follows:

- 7.1.1 Ned Montarello holds 30,309,356 Ordinary Shares (including 1,750,000 shares held pursuant to the Loan Funded Share Plan discussed in section 10 of part 1 above, the vesting of which remains subject to the satisfaction of performance conditions);
- 7.1.2 Fernando de Vicente holds 803,000 Ordinary Shares and has been issued with ThinkSmart Options to take up a further 2,000,000 Ordinary Shares. Vesting of the options remains subject to performance conditions;
- 7.1.3 Keith Jones holds 341,000 Ordinary Shares and has been issued with ThinkSmart Options to take up a further 2,000,000 Ordinary Shares. Vesting of the options remains subject to performance conditions;
- 7.1.4 Gary Halton has been issued with ThinkSmart Options to take up 250,000 Ordinary Shares. Vesting of the options remains subject to performance conditions;
- 7.1.5 Peter Gammell holds 10,687,572 Ordinary Shares; and
- 7.1.6 Roger McDowell holds 1,600,000 Ordinary Shares.

7.2 As at the date of this document and immediately following Admission, the Directors and their families (within the meaning set out in the AIM Rules) shall not, directly or indirectly hold any interest (all of which are beneficial unless otherwise stated), in related financial products (within the meaning set out in the AIM Rules) the existence of which is known to or could, with reasonable diligence, be ascertained by that Director.

## **8 Directors' Service Agreements**

### **8.1 Ned Montarello (Executive Chairman)**

Ned Montarello entered into an executive service agreement with the Company on or around the date of this document. He receives an annual salary of £175,000 payable in monthly instalments. He also receives superannuation contributions of 9.5% of his base salary, amounting to £16,625 annually.

Ned is eligible to participate in such bonus and/or commission schemes as the Company operates for employees of a similar status, including the prospective long term incentive arrangements referred to in section 10.4 of part 1 of this document, at the discretion of the Company. He is also reimbursed for all reasonable expenses properly incurred by him during the performance of his duties on behalf of the Company.

The executive service agreement is terminable without notice for serious misconduct and can also be terminated by either party with six months' written notice for any reason or by Ned with three months' written notice where there is a change of control of the Company. The Company can require Ned to work for part of the notice period and pay him in lieu of the balance of the period, or pay him in lieu of the entire notice period.

Ned is prohibited from disclosing confidential information during his employment and after termination. During his employment, he cannot be engaged, concerned or interested in any other business competing with the Company without the consent of the Board. However, he can hold shares in companies listed on any recognised stock exchange with the Board's prior written consent if he does not hold more than 5% of the issued shares of any class of one company.

Ned is subject to an obligation not be engaged or involved in any competing business or act in any way that would assist or induce any clients, contractors or staff to breach their contracts with the Company for 12 months after his employment ends. He also cannot induce employees to terminate their employment with the Company or solicit customers or clients of the Group to cease to do business during the relevant period.

Ned is also appointed as a statutory director of the Company and certain other Subsidiaries. He does not receive any further remuneration for his board positions.

Aside from as set out above, the executive service agreement does not provide for benefits upon termination of employment.

### **8.2 Fernando de Vicente (Chief Executive Officer)**

Fernando de Vicente entered into a service agreement with the Company on 17 October 2014 under which he works as Chief Executive Officer.

He receives an annual salary of £250,000 payable monthly plus an allowance for accommodation and education of £25,000 per annum.

Fernando is eligible to participate in such bonus and/or commission schemes as the Company operates for employees of a similar status under which he is eligible to receive an annual bonus of an amount equal to up to 100% of his salary subject to the achievement of agreed performance indicators. In addition, he is eligible for an annual allocation of share options with a value on the date of allocation of up to 100% of his annual salary based on performance targets.

Fernando is also provided by the Company with a company car at a cost of up to £8,400 per annum (dependent on the type of car chosen), private medical insurance for himself and his spouse and children, dental and opticians cover and life assurance providing cover of four times his basic annual salary. Fernando also receives matching employer pension contributions of up to 5% of his salary. He is also reimbursed for all expenses properly incurred by him on behalf of the Company.

In addition to being terminable without notice for gross misconduct, the service agreement can be terminated by the Company (subject to applicable statutory considerations) on six months' notice in writing save that, in the event of a change of control (as defined therein) this notice period increases from six months to 12 months. The Company can require Fernando to spend his notice period on garden leave or terminate his employment immediately by paying him basic salary only in lieu of his notice period (or the unexpired

portion of it). This is payable in instalments and Fernando is required to give credit for any sums receivable from alternative employment or consultancy during his period of notice/payment in lieu thereof.

Fernando may not, during his employment be engaged in or concerned with any other business or public office which may interfere with the performance of his job or be in conflict with the best interests of the Company. He is, however, able to hold non-executive roles in other organisations with the prior consent of the board. He is also subject to an obligation not to disclose confidential information and trade secrets and to prohibitions (which apply for a period of six months following the termination of his employment) on competing, soliciting or dealing with certain clients and prospective clients and poaching certain staff members.

Fernando is also appointed as a statutory director of the Company and certain other Subsidiaries. He does not receive any further remuneration for his board positions.

Aside from as set out above, the service agreement does not provide for benefits upon termination of employment.

#### **8.3 Gary Halton (Chief Financial Officer)**

Gary Halton entered into a service agreement with the Company on 13 September 2007 under which he works as Chief Financial Officer.

He receives an annual salary of £118,000 payable monthly plus a vehicle allowance of £7,500 per annum.

Gary is eligible to participate in such bonus and/or commission schemes as the Company operates for employees of a similar status under which he is eligible to receive an annual bonus of an amount equal to up to 50% of his salary subject to the achievement of agreed performance indicators. In addition, he is eligible for an annual allocation of share options with a value on the date of allocation of up to 65% of his annual salary based on performance targets.

Gary is also provided by the Company with private medical insurance for himself and his family, dental and opticians cover and life assurance providing cover of four times his basic annual salary. Gary is also reimbursed for all expenses properly incurred by him on behalf of the Company.

In addition to being terminable without notice for gross misconduct, the service agreement can be terminated by the Company (subject to applicable statutory considerations) on six months' notice in writing. The Company can require Gary to spend his notice period on garden leave or terminate his employment immediately by paying him basic salary only in lieu of his notice period (or the unexpired portion of it). This is payable in instalments and Gary is required to give credit for any sums receivable from alternative employment or consultancy during his period of notice/payment in lieu thereof.

Gary may not, during his employment be engaged in or concerned with any other business or public office which may interfere with the performance of his job or be in conflict with the best interests of the Company. He is also subject to an obligation not to disclose confidential information and trade secrets and to prohibitions (which apply for a period of six months following the termination of his employment) on competing, soliciting or dealing with certain clients and prospective clients and poaching certain staff members.

Gary shall be, with effect from Admission, appointed as a statutory director of the Company, Gary is also currently a statutory director of certain other Subsidiaries. He does not receive any further remuneration for his board positions.

Aside from as set out above, the service agreement does not provide for benefits upon termination of employment.

#### **8.4 Keith Jones (Non-Executive Director and Deputy Chairman)**

Keith Jones will become Non-Executive Director and Deputy Chairman of the Company from Admission. Keith will be paid £50,000 per annum and will be expected to attend each meeting of the Board and of any committees to which he is appointed, the annual general meeting and any general meetings of the Company. His appointment letter contains confidentiality obligations.

**8.5 Peter Gammell (Independent Non-Executive Director)**

Peter Gammell was appointed as a Non-Executive Director of the Company on 23 May 2016. Peter entered into an appointment letter with the Company on 14 September 2016 (as supplemented by an amending letter dated on or around the date of this document) under which he will be paid a directors' fee of £40,000 per annum plus a further £7,500 per annum for serving as Chairman of the Remuneration and Nomination Committee.

**8.6 David Adams (Independent Non-Executive Director)**

David Adams will become a Non-Executive Director of the Company from Admission. David will be paid £40,000 per annum for his directorship and an additional £10,000 per annum for his chairmanship of the Audit and Risk Committee. He will be expected to attend each meeting of the Board and of any committees to which he is appointed, the annual general meeting and any general meetings of the Company. His appointment letter contains confidentiality obligations.

**8.7 Roger McDowell (Independent Non-Executive Director)**

Roger McDowell will become a Non-Executive Director of the Company from Admission. Roger will be paid £40,000 per annum and will be expected to attend each meeting of the Board and of any committees to which he is appointed, the annual general meeting and any general meetings of the Company. His appointment letter contains confidentiality obligations.

**8.8 David Griffiths (Previous Director)**

David Griffiths became a director of the Company on 28 November 2007 and ceased to be a director on 18 August 2016.

**9 Directorships and Partnerships**

9.1 In addition to their directorships of the Company, the Directors are, or have been, members of the administrative, management or supervisory bodies ("Directorships") or partners of the following companies or partnerships, at any time in the five years prior to the date of this document:

Name	Age	Current Directorships/ partnerships	Former Directorships/ partnerships
Natale Ronald Montarello (also known as Ned) <i>(Executive Chairman)</i>	55	Castor Investments Pty Ltd Isola Pty Ltd Mainwest Pty Ltd One Ventures (Investment Fund) Pollux Holdings Pty Ltd SmartCheck Italy S.r.l. SmartCheck Limited Smartcheck S.L. Smartplan Spain S.L. ThinkSmart Inc. ThinkSmart Europe Limited ThinkSmart LTI Pty Limited Turning Point Productions Pty Ltd	Adasco Pty Ltd RentSmart Finance Limited RentSmart Ltd RentSmart (NZ) Pty Limited RentSmart Servicing Pty Ltd SmartCheck Pty Ltd ThinkSmart Financial Services Ltd
Fernando de Vicente <i>(Chief Executive Officer)</i>	49	Compania de Almacenaje Distribucion y Servicios SA GPD Holding Control SL Iberica de Drogueria y Perfumeria SA Imperatium Investments SL RentSmart Ltd ThinkSmart Financial Services Ltd ThinkSmart Europe Limited ThinkSmart UK Ltd	RentSmart Finance Ltd The Beauty Bell Chain SL (trading as BodyBell) Levantina de Minerales y Asociados SA

Name	Age	Current Directorships/ partnerships	Former Directorships/ partnerships
Gary Robert Halton <i>(Chief Financial Officer)</i>	48	Holding Sector PDM SL GPD Holding Control SL Imperiatum Investments SL Egessa Invest SL GPD Holding Control SL Sopraco Gestion de Obras Sociedad Limitada Compagnie Fruitiere Espana Corporacion SA Electrolux Professional SA  RentSmart Ltd ThinkSmart Financial Services Ltd ThinkSmart Insurance Services Administration Ltd ThinkSmart UK Ltd ThinkSmart Europe Limited	SmartCheck Limited
Keith John Jones <i>(Non-Executive Director and Deputy Chairman)</i>	51	Arlanza Advisory Ltd ThinkSmart Europe Limited SmartCheck Limited ThinkSmart Financial Services Limited Sprint Connect, LLC.	ThinkSmart UK Limited ASITIS Advisory Ltd Astral Sports and Leisure (Retail) Limited Blane Leisure Limited Golf TV Limited Jack Sharp Limited JJB Card Services Limited JJB Sports Distribution Limited JJB Sports Employment Limited JJB Sports Plc Mayfind Limited Sports Division Limited RentSmart Limited SSL Retail Limited SSL Sports and Leisurewear Plc The Golf Channel (UK) Limited TV Sports Shop (International) Limited TV Sports Shop Limited
Peter Joshua Thomas Gammell	59	Divvy Parking Pty Ltd Foxhall Australia Holdings Pty Ltd Foxhall Investments Pty Ltd Invictus Advisory Pty Ltd Invictus Ventures Pty Ltd ISB Holdings Pty Ltd James Gammell & Son Ltd Landlift Pty Ltd MRT Investment Company Pty Ltd Sesamoid Pty Ltd Seven West Media Ltd Traelix Corporation Pty Ltd	Ashblue Holdings Pty Ltd Australian Capital Equity Pty Ltd Bingalong Pty Ltd Clabon Pty Ltd Coates Group Holdings Pty Ltd Enviro Research Pty Ltd Fontley Pty Ltd Mercury Corporate Pty Ltd National Hire Facilitation Ltd National Hire Group Ltd North Aston Pty Ltd

Name	Age	Current Directorships/ partnerships	Former Directorships/ partnerships
		Wulura Farms Pty Ltd Wulura Investments Pty Ltd New Isla Ltd Highland Properties Group Ltd Highland Properties (Motherwell) Ltd 888 Nominees Pty Ltd Ba Da Chu Kou Pty Ltd Comcard Investments Pty Limited Hayes Road Pty Ltd Octet Finance Pty Limited Phakkad Pty Limited Weebinn Pty Ltd Octet Trading Pty Ltd	Premier Capital Developments Pty Ltd Redlake Enterprises Pty Ltd Seven Media Group Pty Ltd SLR Research Pty Ltd Tiberius Pty Ltd Vividwireles Group Ltd Westrac Holdings Pty Ltd Wroxby Pty Ltd Consolidated Media Holdings Pty Limited Goanna Café Pty Ltd Seven (National) Pty Limited Seven Group Holdings Limited Seven Network Limited Westrac Pty Ltd Highland Properties (Assets) Ltd Australian Capital Equity (USA) Inc. Griffinross Corporation
David Alexander Robertson Adams	62	Conviviality Plc Elegant Hotels Group Plc EVGH Limited Fever Tree Drinks Plc Halfords Group Plc Hornby Plc Park Cameras Ltd Stafford Place Consulting Limited Wine Rack Ltd Walkwear Limited Walk the Walk Worldwide Walk the Walk in Action Limited	Alexon Group Plc Blane Leisure Limited BCC Realisations Limited BRC Trading Limited JGLCC Camera Company Limited HMV Group Plc JJB Sports Plc Jessops Plc Mackinnon's of Dyce Ltd Mayfind Limited Musto Bidco Limited Musto Limited Musto Midco Limited Musto Topco Limited Snap Equity Limited WOC Realisations Ltd
Roger Steven McDowell	61	Fineguard Ltd Disperse Ltd Dovehoco 201 Ltd Avingtrans Plc D4t4 plc Swallowfield Plc Servelec Plc Proteome Sciences Plc Premier Technical Services Group Plc Tribal Group Plc	Augean Plc One Advice Group Plc Alkane Energy Plc Corsair Techinvest Ltd Ultimate Finance Holdings Ltd Harrington Brooks Ltd Ultimate Finance Group Ltd

9.2 The current business address of:

9.2.1 Ned Montarello and Peter Gammell (in their capacity as Directors) is the registered office address of the Company; and

- 9.2.2 Fernando de Vicente, Gary Halton, Roger McDowell, David Adams and Keith Jones (in their capacity as Directors) is 7th Floor, Talbot Road, Manchester, M16 0PQ.
- 9.3 Save as otherwise disclosed below, as at the date of this document, no Director:
- 9.3.1 has any unspent convictions in relation to any indictable offences;
  - 9.3.2 has been bankrupt, or entered into an individual voluntary arrangement;
  - 9.3.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditor's voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
  - 9.3.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
  - 9.3.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or
  - 9.3.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.
- 9.4 From April 2010 to May 2015, Fernando de Vicente was a director of The Beauty Bell Chain SL. It is understood that, since leaving The Beauty Bell Chain SL, the company has since entered into arrangements with its creditors for the purposes of ensuring the viability of the company going forwards.
- 9.5 From May 2007, David Adams was a director of Jessops Plc. On 21 January 2010 Jessops Plc entered into a Members Voluntary Liquidation and was subsequently dissolved on 25 April 2011.
- 9.6 From April 2008, David Adams was a director of WOC Realisations Ltd. On 6 November 2008, WOC Realisations Ltd entered into a Creditors Voluntary Liquidation. Ernst and Young were appointed to oversee a prepack administration of the company.
- 9.7 From April 2008, David Adams was a director of BCC Realisations Ltd. On 6 November 2008, BCC Realisations Ltd entered into a Creditors Voluntary Liquidation. Ernst and Young were appointed to oversee a prepack administration of the company.
- 9.8 From July 2009, David Adams was a director of Tecno Ltd. On 16 October 2009, Tecno Limited entered into a Creditors Voluntary Liquidation.
- 9.9 From February 2010 to September 2012, David Adams was a director of JJB Sports Plc. On 1 October 2012, JJB Sports Plc was placed into administration, with KPMG appointed as administrator to the company.
- 9.10 From May 2010, David Adams was a director of Mackinnon's of Dyce Ltd, on 22 February 2011, a winding up order was made against the company. KPMG were appointed as liquidator to the company.
- 9.11 From September 2010, David Adams was a director of Alexon Group Plc. On 29 September 2011, Alexon Group Plc was placed into administration, with KPMG appointed as administrator to the company.
- 9.12 From May 2012 to January 2013, David Adams was a director of HMV Plc. On 15 January 2013, HMV Plc was placed into administration, with Deloitte appointed as administrator to the company.
- 9.13 From August 2012, David Adams was a director of Blaine Leisure Ltd. On 8 October 2012, Blane Leisure Ltd was placed into administration, with KPMG appointed as administrator to the company.
- 9.14 From August 2012, David Adams was a director of Mayfind Limited. On 20 March 2013, Mayfind Limited was placed into administration, with KPMG appointed as administrator to the company

- 9.15 From April 2013, Keith Jones was a director of ASITIS Advisory Ltd. In March 2015, ASITIS Advisory Ltd entered into a Members Voluntary Liquidation.
- 9.16 From March 2010 to July 2012, Keith Jones was a director of JJB Sports Plc. On 1 October 2012, JJB Sports Plc was placed into administration, with KPMG appointed as administrator to the company.
- 9.17 From April 2000, Roger McDowell was a director of Corsair Techinvest Ltd. On 24 November 2015, Corsair Techinvest Ltd entered into a Solvent Members Voluntary Liquidation.
- 9.18 From March 1999 to January 2001, Roger McDowell was a director of Town Index Limited. On 23 January 2001, Town Index Limited entered into a Creditors Voluntary Liquidation and was subsequently dissolved on 23 May 2005.
- 9.19 From June 2001 until July 2003, Roger McDowell was a director of Wax Digital Limited. On 14 June 2001, Wax Digital Limited entered into a Creditors Voluntary Liquidation.
- 9.20 From March 2003 until January 2006, Roger McDowell was a director of Advanced Fluid Connections Plc. On 24 March 2006, Advanced Fluid Connections Plc was placed into administration.
- 9.21 From June 2007 until April 2008, Roger McDowell was a director of IDMoS Plc. On 16 April 2008, IDMoS Plc was placed into administration.

## **10 UK Taxation**

### **10.1 General**

- 10.1.1 This section is intended as a general guide for Shareholders on the tax consequences of acquiring, holding and disposing of Ordinary Shares. It is a summary of UK law and HMRC published practice as at the date of this document, which is subject to change, possibly with retrospective effect.
- 10.1.2 The comments in this section only apply to Shareholders who are individuals, who are resident and domiciled for tax purposes only in the UK, who are the absolute beneficial owners of Ordinary Shares and who hold those Ordinary Shares as an investment.
- 10.1.3 This section does not address the position of other Shareholders. In particular, it does not address the position of:
  - 10.1.3.1 Shareholders who are not individuals;
  - 10.1.3.2 Shareholders who are not resident in the UK or who are resident in the UK but are not domiciled in the UK for tax purposes;
  - 10.1.3.3 Shareholders who are officers or employees of the Group;
  - 10.1.3.4 Shareholders who are dealers in securities or broker-dealers; or
  - 10.1.3.5 Shareholders who hold their Ordinary Shares through a collective investment scheme.
- 10.1.4 This section is only intended as a general guide. Shareholders should consult their own tax advisers on the tax implications of making an investment in the Company under the laws of the countries in which they may be liable to taxation.

### **10.2 Taxation of dividends**

- 10.2.1 No tax is required to be withheld from dividend payments by the Company.
- 10.2.2 Dividend income is included in an individual Shareholder's income for income tax purposes and is treated as the "top slice" of a Shareholder's income for the purposes of determining the rate at which income tax is charged on that dividend income.
- 10.2.3 An individual Shareholder will be subject to tax at 0% on the first £5,000 of dividend income which he or she receives irrespective of the amount of the Shareholder's income for income tax purposes.

- 10.2.4 An individual Shareholder will not be subject to tax on dividend income above £5,000 if, treating that income as the top slice of the Shareholder's income, that income would be within that individual's personal allowance (£11,000 for the 2016/17 tax year)
- 10.2.5 An individual Shareholder will be subject to income tax on dividend income at a rate of 7.5%, if and to the extent that the Shareholder's dividend income exceeds £5,000 and, after treating that income as the top slice of the Shareholder's income, that income would otherwise be charged at the basic rate.
- 10.2.6 An individual Shareholder will be subject to income tax on dividend income at a rate of 32.5%, if and to the extent that the Shareholder's dividend income exceeds £5,000 and, after treating that income as the top slice of the Shareholder's income, that income would otherwise be charged at the higher rate.
- 10.2.7 An individual Shareholder will be subject to income tax on dividend income at a rate of 38.1%, if and to the extent that the Shareholder's dividend income exceeds £5,000 and, after treating that income as the top slice of the Shareholder's income, that income would otherwise be charged at the additional rate.

#### **10.3 Taxation of chargeable gains**

- 10.3.1 A disposal of all or any of the Ordinary Shares may, depending on the circumstances of the Shareholder, give rise to a liability to UK taxation on chargeable gains.
- 10.3.2 An individual Shareholder who disposes of Ordinary Shares at a gain will be subject to capital gains tax to the extent that the gain exceeds the annual exemption (£11,100, for the 2016/17 tax year) after taking account of any capital losses available to the individual and subject to any available reliefs.
- 10.3.3 For individuals, capital gains tax is charged at 10% to the extent that gains accruing to an individual in any tax year (calculated after deducting the annual exemption and capital losses) when aggregated with the individual's taxable income for that year (calculated after deduction of the personal allowance and other reliefs) are less than the upper limit of the income tax basic rate band.
- 10.3.4 Capital gains tax is charged at 20% to the extent that gains accruing to an individual in any tax year (calculated after deducting the annual exemption and capital losses) when aggregated with the individual's taxable income for that year (calculated after deduction of the personal allowance and other reliefs) exceed the upper limit of the income tax basic rate band.
- 10.3.5 The Finance Bill as published on 24 March 2016 contains proposals for a relief from capital gains tax known as Investors' Relief. If these provisions are enacted in the form originally published, gains accruing to an individual on shares that are admitted to trading on AIM may be subject to capital gains tax at a rate of 10% (rather than 20%), subject to the satisfaction of a number of conditions including a three year holding period and a £10m lifetime limit.

#### **10.4 Stamp duty and Stamp Duty Reserve Tax ("SDRT")**

Stamp duty and SDRT are not chargeable on dealings in shares which are admitted to trading on AIM provided the shares are neither listed on the Official List of the London Stock Exchange nor listed on any other "recognised stock exchange" (as defined for income tax purposes). In addition, where dealings occur in Depositary Interests relating to such shares, neither stamp duty nor SDRT will be chargeable provided the above conditions are satisfied in respect of such underlying shares.

#### **10.5 Inheritance tax**

- 10.5.1 Individuals who are domiciled or deemed to be domiciled in any part of the UK may be liable to inheritance tax ("IHT") on the value of any Ordinary Shares held by them.

- 10.5.2 The main occasions on which IHT is charged are on the death of the Shareholder, on any gifts made during the seven years prior to the death of the Shareholder, and on certain lifetime transfers, including certain transfers to trusts or appointments out of trusts to beneficiaries.
- 10.5.3 A relief from IHT known as business property relief (“BPR”) may apply to shares in a holding company of a trading group once those shares have been held for two years. Where BPR is available, the value of shares is reduced by 100% for IHT purposes. BPR can apply to shares admitted to trading on AIM provided that the shares are neither listed on the Official List of the London Stock Exchange nor listed on any other “recognised stock exchange”.

## 11 Australian Taxation

### 11.1 General

- 11.1.1 This section provides a general overview of certain Australian tax consequences for Shareholders on acquiring, holding and disposing of Ordinary Shares. The comments in this section are based on the Australian taxation laws (including established interpretations of those laws) and understanding of the practice of the Australian Taxation Office (ATO) as at the date of this document.
- 11.1.2 This section is general in nature and is not intended to be an authoritative or a complete statement of the Australian taxation laws. It should be noted that the Australian taxation laws are complex and the Shareholder's own circumstances will affect the taxation outcomes of Shareholders on acquiring, holding and disposing of Ordinary Shares. It is therefore recommended that Shareholders seek independent professional taxation advice having regard to their own specific circumstances in acquiring, holding and disposing of an investment in the Company.
- 11.1.3 The comments in this section only apply to Shareholders who are individuals, who are the absolute beneficial owners of Ordinary Shares and who hold those Ordinary Shares on capital account (i.e. as an investment).
- 11.1.4 This section does not address the position of other Shareholders. In particular, it does not address the position of:
  - 11.1.4.1 Shareholders who are not individuals; and
  - 11.1.4.2 Shareholders who hold their Ordinary Shares on revenue account (including as trading stock).
- 11.1.5 The Company has applied for a Class Ruling from the ATO on certain matters regarding the Australian income tax treatment for Shareholders who hold their Ordinary Shares via holding Depositary Interests. The commentary below is principally based on a favourable Class Ruling being obtained from the ATO in relation to the relevant matters relating to holding Depositary Interests, in particular that Shareholders are “absolutely entitled” to the Ordinary Shares they have a beneficial interest in via the Depositary Interest facility. The comments below do not address the Australian income tax implications of a Shareholder converting Ordinary Shares into Depositary Interests (or vice versa). It is possible that the ATO may take a different view in the Class Ruling from that expressed below. The Company will advise Shareholders when the final Class Ruling becomes available. Shareholders are strongly advised to obtain their own professional taxation advice regarding the Australian tax treatment of holding their Ordinary Shares via holding Depositary Interests, including the tax implications of: (1) the conversion of a Shareholder's CHESS or issuer sponsored holding into certificated form on the Company's Australian register; (2) the subsequent conversion of Shares into Depositary Interests (or vice versa); and (3) the receipt of future dividend payments from the Company via the Depositary Interest facility.

### 11.2 Dividends on an Ordinary Share – Australian tax resident

- 11.2.1 Dividends may be paid to Shareholders in respect of their Ordinary Shares. Australian tax resident Shareholders will be required to include dividends in their assessable income in the income year in which the dividends are paid.

- 11.2.2 As the Company's operations are based in the UK, future franking capacity is expected to be limited to the Company's residual franking account balance, which is minimal. Therefore, it is expected that future dividends will not be franked.
- 11.2.3 Notwithstanding, to the extent that future dividends do end up being franked, the associated franking credits should also be included in the Australian tax resident Shareholder's assessable income where the Shareholder is entitled to a tax offset for the associated franking credits (that is, the dividends are required to be "grossed-up"). In such circumstances, Shareholders are subject to tax at their applicable rate of tax on the grossed-up dividends received (but should be entitled to a tax offset for the associated franking credits).
- 11.2.4 To the extent that the dividends are unfranked, there is no gross-up (or tax offset) and Australian tax resident Shareholders should be subject to tax at their applicable rate of tax on the unfranked dividends received.
- 11.2.5 The distribution statement annexed to the dividends paid should advise of the franking status of the dividends.
- 11.2.6 Australian tax resident Shareholders should generally be entitled to a "tax offset" equal to the amount of any franking credits received provided they are "qualified persons" in respect of the relevant dividends.
- 11.2.7 In broad terms, Shareholders who have held their Ordinary Shares "at risk" for at least 45 days (excluding the dates of acquisition and disposal) should be qualified persons and should be able to claim a tax offset for the amount of franking credits received. Furthermore, individual Australian tax resident Shareholders whose total franking tax offsets (for all franked distributions received in the income year) do not exceed A\$5,000 for the income year should generally be deemed to be qualified persons. Special rules also apply to arrangements which involve the making of related payments to pass on the benefit of any dividends paid.
- 11.2.8 Shareholders should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.
- 11.2.9 The ability of Shareholders who hold their Ordinary Shares via holding Depositary Interests to access franking credit tax offsets may be restricted. The rules surrounding taxation of franked dividends received through the Depositary Interest facility is complex and it is recommended that affected Shareholders obtain advice to confirm the appropriate taxation considerations and treatment for this situation having regard to their own specific circumstances.
- 11.2.10 For Australian tax purposes, dividends received by Australian tax resident Shareholders should generally be "grossed up" for any applicable UK withholding tax. Such Shareholders may be entitled to a foreign income tax offset (FITO) for the withholding tax. Broadly, a FITO will reduce the Australian tax payable on foreign income that has been subject to foreign income tax. The amount of FITO available is equal to the foreign income tax paid, subject to a limit. The FITO limit is the greater of \$1,000 and the Australian tax that would be payable on the Shareholder's assessable foreign income for the year (less relevant expenses other than interest).
- 11.2.11 For dividends received via the Depositary Interest facility, the benefits of any FITO may, in some cases, also pass through if Shareholders are Australian tax resident individuals. The rules surrounding the treatment of FITO via the Depositary Interest facility can be complex and it is recommended that affected Shareholders obtain advice to confirm the appropriate taxation considerations and treatment for this situation having regard to their own specific circumstances.

### **11.3 Dividends on a Share – non-Australian tax resident**

- 11.3.1 Generally, unfranked dividends paid to Shareholders that are not Australian tax residents should be subject to dividend withholding tax. To the extent that distributions to non-Australian tax residents include unfranked dividends, there is a requirement for the payer to withhold tax at the rate applicable to each non-Australian tax resident Shareholder. Australian dividend withholding tax is levied at a flat rate of 30% on the gross amount of the dividends unless a Shareholder is a tax

resident of a country that has an applicable double tax treaty with Australia. Relevantly, the Australian dividend withholding tax is generally limited to 15% for individual Shareholders that are tax resident of the UK.

- 11.3.2 Australia has a system of “conduit foreign income” accounts, which allow Australian companies to pay unfranked dividends from conduit foreign income to non-Australian tax resident Shareholders free of non-resident withholding tax. Conduit foreign income is broadly foreign income paid to the Australian company where that foreign income is exempt from Australian income tax, such as certain branch profits and dividends.
- 11.3.3 To the extent that unfranked dividends are declared in the distribution statement for the dividends to be conduit foreign income, the unfranked dividends should not be subject to Australian dividend withholding tax. The distribution statement for the dividends paid should advise of the conduit foreign income status of the dividends.
- 11.3.4 Unfranked dividends declared to be conduit foreign income should be subject to tax in the same manner as other unfranked dividends for Australian tax resident Shareholders.
- 11.3.5 As the Group’s operations are based in the UK, it is the Company’s expectation that future unfranked dividends will be fully or largely conduit foreign income such that Australian dividend withholding tax should be reduced (to nil where the unfranked dividend is fully conduit foreign income).
- 11.3.6 It is recommended that non-Australian tax resident Shareholders also consider the tax implications of receiving dividends in respect of Ordinary Shares under their respective local tax regimes, including if a credit is available for any dividend withholding tax.
- 11.3.7 The rules surrounding taxation of dividends paid via the Depository Interest facility is complex. It is the Company’s intention to consider this circumstance further in the context of applicable withholding tax rules following receipt of the aforementioned Class Ruling; it is the Company’s intention to seek further clarity from the ATO regarding applicable withholding tax rules as needed prior to the first dividend payment post-AIM listing. The Company will keep shareholders updated regarding the outcomes of these processes.

#### 11.4 **Taxation of future Share disposals – Australian tax resident**

- 11.4.1 Australian tax resident Shareholders who hold their Ordinary Shares on capital account will be required to consider the impact of the capital gains tax (CGT) provisions in respect of the disposal of their Ordinary Shares.
- 11.4.2 Where the capital proceeds received on the disposal of the Ordinary Shares exceed the CGT cost base of those Ordinary Shares, Australian tax resident Shareholders will be required to recognise a capital gain. The CGT cost base of the Ordinary Shares should generally be equal to the issue price or acquisition price of the Ordinary Shares plus, among other things, incidental costs associated with the acquisition and disposal of the Ordinary Shares. In respect of the CGT cost base of the Ordinary Shares, this amount may be reduced as a result of receiving non-assessable distributions from the Company, such as returns of capital.
- 11.4.3 Conversely, Australian tax resident Shareholders may recognise a capital loss on the disposal of Ordinary Shares where the capital proceeds received on disposal are less than the reduced CGT cost base of the Ordinary Shares.
- 11.4.4 All capital gains and losses recognised by an Australian tax resident Shareholder for an income year are considered collectively. To the extent that a net gain exists, such Shareholders should be able to reduce the gain by any amount of unapplied net capital losses carried forward from previous income years (provided certain loss recoupment tests are satisfied). Any remaining net capital gain (after the application of any carried forward tax losses) will then be required to be included in the Australian tax resident Shareholder’s assessable income (subject to comments below in relation to the availability of the CGT discount concession) and will be taxable at

the Shareholder's applicable rate of tax. Where a net capital loss is recognised, the loss will only be deductible against capital gains. Capital losses are capable of being carried forward indefinitely, provided the relevant loss recoupment tests are satisfied.

- 11.4.5 Individual Shareholders may be entitled to a concession which discounts the amount of capital gain that is assessed. Broadly, the concession is available where the Ordinary Shares have been held for 12 months or more prior to disposal. The concession results in a 50% reduction in the assessable amount of a capital gain for an individual Shareholder.
- 11.4.6 The above CGT outcomes are based on Shareholders being "absolutely entitled" to the Ordinary Shares they hold via the Depositary Interest facility. In this case, a disposal of a Depositary Interest should be treated as a disposal of the underlying Ordinary Share for CGT purposes. It is recommended that Australian tax resident Shareholders who hold their Ordinary Shares via holding Depositary Interests seek independent professional taxation advice regarding the application of the Australian CGT rules to the acquisition and disposal of their investment having regard to their own specific circumstances.

#### **11.5 Taxation of future Share disposals – non-Australian tax resident**

- 11.5.1 Non-Australian tax resident Shareholders who hold their Ordinary Shares on capital account should not generally be subject to the Australian CGT regime upon disposal of their Ordinary Shares except in limited circumstances; for example, where the Ordinary Shares are used in the carrying on of a business through a permanent establishment in Australia or where the Ordinary Shares are "indirect Australian real property interests" at the time of sale. In this regard, the Ordinary Shares should be indirect Australian real property interests to the extent that, broadly, the following two requirements are satisfied:
  - 11.5.1.1 The Company is considered "land rich" for Australian income tax purposes (that is, greater than 50% of the market value of the company's underlying assets is derived from Australian real property interests or certain interests in relation to Australian minerals); and
  - 11.5.1.2 The non-Australian tax resident Shareholder has an associate-inclusive interest of at least 10% in the Company.
- 11.5.2 It is noted that it is unlikely that the Company is currently considered "land rich" for Australian income tax purposes but this analysis is required to be undertaken at the time of disposal.
- 11.5.3 It is recommended that non-Australian tax resident Shareholders who hold their Ordinary Shares via holding Depositary Interests seek independent professional taxation advice regarding the application of the Australian CGT rules to the acquisition and disposal of their investment having regard to their own specific circumstances.

#### **11.6 Controlled foreign company rules**

- 11.6.1 The Company expects that it will become a tax resident of the UK. In this case, the Company (and Group) should be considered foreign companies for the purpose of Australia's controlled foreign company (CFC) rules. In broad terms, the CFC rules may apply where a non-Australian tax resident company or relevant dual tax resident company is regarded as controlled by Australian tax residents. The determination of whether such a company is controlled by Australian tax residents is complex and involves tracing through indirect interests and considering interests held by Australian and non-Australian tax resident associates.
- 11.6.2 In broad terms, a non-Australian tax resident company or relevant dual tax resident company will be taken to be a CFC where:
  - 11.6.2.1 Five or fewer Australian tax residents together with their associates have 50% or more of the interests in the company;

- 11.6.2.2 A single Australian tax resident entity and its associates have 40% or more of the interests in the company (unless the entity can establish that it, together with its associates, does not control the company); or
  - 11.6.2.3 The company is controlled by five or fewer Australian tax resident entities either alone or together with their associates.
- 11.6.3 If one of these rules is satisfied and the Company is a CFC, an Australian tax resident Shareholder will potentially be subject to attribution of income of the Company (and Group) under the CFC rules. Attribution can generally only occur where an Australian tax resident Shareholder (together with their associates) holds at least 10% of the Ordinary Shares, although in certain limited circumstances, attribution can occur where an Australian tax resident Shareholder (together with their associates) holds at least 1% of the Ordinary Shares.
- 11.6.4 The attributable income of a CFC is, in broad terms, calculated in accordance with Australian tax rules as if the relevant CFC where an Australian tax resident, subject to certain modifications. However, for companies resident in certain countries, like the UK, there are only limited categories of income that may be subject to attribution. Furthermore, where the CFC passes an active income test, there should be no attribution of income.
- 11.6.5 It is recommended that Shareholders seek independent professional taxation advice regarding the application of the CFC rules having regard to their own specific circumstances.

#### **11.7 Tax file number (TFN) and Australian Business Number (ABN)**

- 11.7.1 An Australian tax resident Shareholder is not obliged to quote a TFN, or where relevant, ABN, to the Company. However, if a TFN or ABN is not quoted and no exemption is applicable, income tax is required to be deducted by the Company at the highest marginal rate (currently 45%) plus Medicare levy of 2% and Temporary Budget Repair levy of 2% (later only until 30 June 2017) from certain dividends paid. Australian tax resident Shareholders may be able to claim a tax credit/rebate (as applicable) in respect of any tax withheld on dividends in their income tax returns.
- 11.7.2 No withholding requirement applies in respect of fully franked dividends paid in respect of the Ordinary Shares. Furthermore, no TFN/ABN withholding requirement should apply to unfranked dividends paid to non-Australian tax residents (as described above, the dividend withholding tax regime should instead apply in this situation).
- 11.7.3 The rules surrounding taxation of dividends paid via the Depositary Interest facility is complex. It is the Company's intention to consider this circumstance further in the context of applicable withholding tax rules (including the no-TFN/no-ABN withholding tax rules) following receipt of the aforementioned Class Ruling; it is the Company's intention to seek further clarity from the ATO regarding applicable withholding tax rules (including the no-TFN / no-ABN withholding tax rules) as needed prior to the first dividend payment post-AIM listing. The Company will keep shareholders updated regarding the outcomes of these processes.

#### **11.8 Stamp duty**

- 11.8.1 Under current stamp duty legislation, stamp duty would not ordinarily be payable in any Australian jurisdiction on any acquisition of Ordinary Shares by a Shareholder, provided the Company and entities in which the Company holds interests, have no relevant interests in "land" assets in Australia.
- 11.8.2 Similarly, there should not be stamp duty payable in any Australian jurisdiction on the conversion of Ordinary Shares into Depositary Interests, or the conversion of Depositary Interests into Ordinary Shares, provided the Company and entities in which the Company holds interests, have no interests in relevant assets in "land" assets in Australia.

11.8.3 It is noted that it is unlikely that the Company currently hold relevant "land" assets for Australian stamp duty purposes but this analysis is required to be undertaken at the time of conversion / disposal. It is recommended that Shareholders seek their own advice to confirm whether there are any Australian stamp duty implications to them from the conversion of Ordinary Shares into Depository Interests (or vice versa) or the future disposal of Ordinary Shares having regard to their own specific circumstances.

**11.9 Goods and services tax (GST)**

11.9.1 Under current Australian GST law, Australian GST should not be applicable to the issue, acquisition or transfer of Ordinary Shares, or to the conversion of Ordinary Shares into Depository Interests (or vice versa). The ability of Shareholders to recover any Australian GST incurred in relation to other costs associated with these transactions as an input tax credit would vary according to individual circumstances and as such this should be reviewed by Shareholders prior to making any claim.

11.9.2 No GST should be payable by Shareholders on receiving dividends distributed by the Company.

**12 Working Capital**

The Directors, in their opinion having made due and careful enquiry, confirm that the working capital available to the Group will be sufficient for its present requirements for at least the next 12 months from the date of Admission.

**13 Significant Change**

Save as otherwise set out in section 8.2 of part 1 and section 5 of part 4, in this document, there has been no significant change in the financial or trading position of the Group since 30 June 2016, being the date to which the Group's historical financial information set out in part 3 was prepared.

**14 Litigation**

No member of the Group is involved in, and during the 12 month period prior to the date of this document there have not been, any governmental, legal or arbitration proceedings that are having or may have a significant effect on the Group's financial position and, so far as the Company is aware, no such proceedings are pending or threatened by or against the Company.

**15 Related Party Transactions**

Save as otherwise set out in this document, no Director has any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired by, disposed of by, or leased to, any member of the Group.

The amount to which related party transactions of the kind set out in the Standard adopted according to the Regulation (EC) no 1606/2002 form part of the turnover of the Company is nil.

**16 Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by any member of the Group and are, or may be, material to the Group or have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

## **16.1 Nominated adviser and broker agreement**

- 16.1.1 The Company entered, on or around the date of this document, into a nominated adviser and broker agreement with Canaccord Genuity, pursuant to which Canaccord Genuity agreed to act as the Company's nominated adviser and broker on an on-going basis.
- 16.1.2 Canaccord Genuity undertakes to provide the services of a nominated adviser, broker and financial adviser as required under the AIM Rules and the Company agrees to comply with its obligations under the AIM Rules. The retainer shall be reviewed on an annual basis. In circumstances where the agreement is terminated for any reason, the Company shall be liable for any fees and expenses which have accrued up to the date of termination.
- 16.1.3 The Company has given certain customary indemnities to Canaccord Genuity (and to its associates), including indemnities for liabilities in relation to the performance by Canaccord Genuity of its role as nominated adviser, broker and financial adviser in respect of its obligations under the agreement, and in respect of any breach by the Company of its obligations, warranties or representations under the agreement. The indemnities given by the Company are subject to customary carve-outs.
- 16.1.4 The agreement is terminable by either party on not less than three months' prior written notice to the other party. Canaccord Genuity may also terminate the agreement in certain circumstances, including where the Company: (i) fails to pay any amount due to Canaccord Genuity under the agreement; (ii) materially breaches the agreement and fails to remedy such breach within 14 days; (iii) broadly speaking, undergoes an insolvency event; or (iv) breaches certain applicable laws and regulations (including the AIM Rules and FSMA).

## **16.2 Introduction Agreement**

On or around the date of this document the Company, the Directors, David Twigg and Canaccord Genuity entered into the Introduction Agreement pursuant to which Canaccord Genuity agreed to introduce the Company to AIM.

The Company will, through Canaccord Genuity, make an application for Admission and the Company will, at its own expense, supply all such information, give all such undertakings, execute all such documents, pay all such fees and do or procure to be done all such things as may be required by the FCA or the London Stock Exchange in connection with the application for Admission or in order to comply with FSMA or the AIM Rules.

The Introduction Agreement can be terminated at any time prior to Admission in certain customary circumstances set out in the Introduction Agreement, including: (i) if any of the warranties contained in the Introduction Agreement or statement made in any of the marketing documents used in connection with the Introduction is untrue, inaccurate or misleading in any material respect by reference to the facts and circumstances existing from time to time; (ii) there arises or is noted any material new factor, mistake or inaccuracy in relation to the information included in the Admission Document or any other material new change or material new matter or other information, in each case which, in the opinion of Canaccord Genuity, requires the Company to prepare a supplementary Admission Document; (iii) where there is a breach by the Company or a Director of any of their respective material obligations under the Introduction Agreement (to the extent such obligations fall to be performed prior to Admission); (iv) upon the occurrence of a material adverse change in, or any development reasonably likely to involve a prospective material adverse change in, or affecting, the condition, financial, operational, legal or otherwise, of the earnings or business affairs of the Group, whether or not arising in the ordinary course of business which is material in the context of the Group as a whole and which renders the Introduction impracticable or inadvisable; or (v) on the occurrence of certain events of force majeure.

If such termination rights are exercised, *inter alia*, the Introduction will lapse and the Company will be required to pay Canaccord Genuity the fees and expenses that are payable by it in accordance with the Introduction Agreement.

The Company has agreed to pay or cause to be paid (together with any applicable VAT) certain costs, charges, fees and expenses of, or arising in connection with or incidental to, the Introduction.

The Company, David Twigg, and the Directors have each given customary warranties and undertakings to Canaccord Genuity, in the case of the Directors and David Twigg subject to certain limitations. In addition, the Company has given a customary indemnity to Canaccord Genuity, including for liabilities in relation to this document and under applicable securities laws.

In addition, pursuant to the Introduction Agreement, the Directors and David Twigg have agreed in respect of Ordinary Shares held by them at Admission (or any Ordinary Shares which may accrue to them as a result of its holding of such Ordinary Shares) that until the date falling 12 months from Admission (the “**Orderly Market Period**”) they will affect any disposal of such Ordinary Shares through Canaccord Genuity on its prevailing terms and conditions. In addition, the Directors and David Twigg have agreed that, for 6 months following the expiry of the Orderly Market Period, they will effect any disposal of such Ordinary Shares through either of the Company’s then appointed brokers on that broker’s then prevailing terms and conditions.

### 16.3 Relationship Agreement

On or around the date of this document, the Company and Ned Montarello shall enter into the Relationship Agreement, the purpose of which is to regulate the relationship between the Group and Ned Montarello so that the Group will, at all times, be capable of carrying on business independently of Ned Montarello and his associates. For the purposes of the Relationship Agreement, the term “associate” has the meaning given to it in the Listing Rules of the FCA.

The Relationship Agreement will continue until: (i) Ned Montarello and his associates cease to have the entitlements to exercise, or to control the exercise (directly or indirectly) of 15 per cent. or more of the voting rights able to be cast on all or substantially all matters at general meetings of the Company (a “**Relevant Interest**”) or (ii) the Ordinary Shares ceases being traded on AIM or on a regulated market situated or operating in the United Kingdom.

If the Relationship Agreement terminates as a result of Ned Montarello and his associates ceasing to have a Relevant Interest and, following such termination, Ned Montarello and any of his associates come again to have (in aggregate) a Relevant Interest, subject always (in the case of the Company) to the Directors’ overriding duties to act in the best interests of the Company, the Company and Ned Montarello agree that they will enter into an agreement containing equivalent provisions to the provisions set out in the next following paragraphs and otherwise will agree and include within such agreement, to the extent considered by them (acting reasonably) appropriate, such other terms as substantially reflect the terms set out in the Relationship Agreement.

The Relationship Agreement will regulate the continuing relationship between Ned Montarello and the Company after Admission. In particular, under the Relationship Agreement Ned Montarello undertakes, so far as he is able, to ensure that he shall:

- conduct all transactions and arrangements between Ned Montarello and/or any of his associates, on the one hand, and the Company and/or any member of its Group, on the other hand, at arm’s length and on normal commercial terms;
- not knowingly, and will procure (to the extent that it is able) that his associates will not, take any action which would or may have the effect of preventing the Company from complying with its obligations under the AIM Rules and not propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the AIM Rules; and
- not do or undertake (or fail to do or undertake) any action which could reasonably be expected to prevent the Company from being able to demonstrate at all times that it is carrying on a business independent of Ned Montarello as its main activity, it being acknowledged that at Admission Ned Montarello will be the Executive Chairman of the Company.

Under the Relationship Agreement, Ned Montarello also undertakes that he shall: (i) (save to the extent required by law) procure that the voting rights attached to the Ordinary Shares held by him (or in which he is interested) are exercised (and shall, to the extent that he is able, procure that each of his associates shall exercise their respective voting rights) to ensure that the provisions of the Relationship Agreement are fully complied with at all times, and (ii) (save to the extent required by law) not vote at any general meetings of the Company in respect of a resolution to be passed by the independent Shareholders of the Company, proposed pursuant to the AIM Rules or Chapter 6 of the Corporations Act and (iii) for a period of two years from Admission, Ned Montarello shall not, and shall procure that its associates shall not, without the consent of the majority of the Independent Directors propose or vote in favour of any resolution for the cancellation of the Ordinary Shares from trading on AIM other than in circumstances where such resolution is being proposed in connection with (A) an offer by a *bona fide* third party (other than Ned Montarello or any of his associates) to acquire the entire issued share capital of the Company or (B) a recommended offer by Ned Montarello or any of his associates to acquire the entire issued share capital of the Company.

For so long as Ned Montarello and his associates have in aggregate, either directly or indirectly, a Relevant Interest and Ned Montarello is not a director or an employee of the Company or any other member of the Group, Ned Montarello will be entitled from time to time to nominate one person to be a director and to remove such person from office. Following any such nomination, the Company is to use all reasonable endeavours to procure that such person is appointed as a director as soon as reasonably practicable thereafter. The Company shall be entitled to remove a Director appointed by Ned Montarello in certain circumstances, including if it is unanimously so agreed by the Independent Directors and the Chairman of the Company.

For so long as the Ordinary Shares are traded on AIM or on a regulated market situated or operating in the United Kingdom, the Company has agreed that it shall procure (to the extent that it is able) that, in accordance with (and subject to any provisions to the contrary in) the Constitution, the size of the Board shall not be less than 4 nor more than 12 and, in addition, that the Board shall be constituted of:

- at least two executive Directors, provided that as at Admission the Company and Ned Montarello acknowledge that the Board is to have three Executive Directors, being the Company's chairman, chief executive officer and chief financial officer; and
- not less than two Independent Directors.

The Board believes that the terms of the Relationship Agreement will enable the Company to carry on its business independently from Ned Montarello and his associates, and ensure that all transactions and relationships between the Company and Ned Montarello and his associates are, and will be, at arm's length and on a normal commercial basis.

#### 16.4 Dixons Retail contracts

There are two contracts between the Group and Dixons Retail both of which are agreements for Dixons Retail to promote and sell certain of the Group's Products to its customers. One contract is for Dixons Retail's consumer customers (the "**B2C Contract**") and the other is for Dixons Retail's business customers (the "**B2B Contract**").

Subject to each party's rights to early termination (described below), both of the contracts shall continue until at least 31 July 2018 (the "**Minimum Term**"), from which date the contracts will continue thereafter unless six months' written notice is given to terminate. Such notice may not be served before 31 July 2018.

Both contracts with Dixons Retail contain a mutual exclusivity provision to the effect that neither party can contract with a competitor of the other party in relation to the provision of a similar product. However, under the B2B Contract, this exclusivity ceases to apply should the value of the rental agreements entered into over a 12 month period fail to match the annual target. Such annual target is agreed by the parties each year in respect of the next contract year. The exclusivity obligations in both contracts will also cease to apply if the Group is unable to provide lease agreements to Dixons Retail's customers as a result of the Group's non-availability of funding for a period of 30 days or more.

The B2B contract contains a carve out such that Dixons Retail is not bound by the exclusivity provisions in respect of: (i) transactions between Dixons Retail and its large business customers (any person employing 11 or more employees); (ii) transactions entered into by Dixons Retail with an invoice value in excess of £15,000 (exc. VAT); or (iii) transactions generated by Dixons Retail through the trading style "Equanet" or "Mac Warehouse".

The B2B Contract and B2C Contract may be terminated by either party in the following instances: (i) the other party has committed a material breach of its obligations; (ii) the other party is insolvent or unable to pay its debts; or (iii) the other party fails to obtain or renew any licence, approval or consent required to lawfully fulfil its obligations under the contract. In addition, should the B2C Contract be terminated for any reason, the B2B Contract may also be terminated by either party.

The Group is solely responsible for the leasing agreements' compliance with regulations (including consumer credit regulations) and provides warranties in respect of the same. The Group is also required to indemnify Dixons Retail in respect of any losses suffered by Dixons Retail in connection with the Group's day to day administration of the lease agreement with consumers, debt collection, credit risk, fraud or credit recovery activities.

#### 16.5 **Carphone Warehouse contract**

The Group has entered into an agreement with Carphone Warehouse under which Carphone Warehouse agrees that it will promote and sell the Group's Upgrade Everytime Product to its consumer customers.

The services contemplated by the agreement were offered from 15 November 2016 (the "**Launch Date**") (which was the date agreed in the agreement). Following the Launch Date, save for the rights to terminate early, as described below, the agreement shall continue in force for a minimum period of 60 months (the "**Carphone Minimum Term**"), from which the agreement will continue thereafter unless six months' written notice is given to terminate. Such notice may not expire prior to the last day of the Carphone Minimum Term.

The agreement provides that, where Carphone Warehouse is not in breach of the exclusivity commitments (described below), the Group shall contribute £1,000,000 to Carphone Warehouse (in instalments). Such funds are to be used for the purposes of marketing Upgrade Everytime in accordance with an agreed marketing plan. The Group shall pay this amount to Carphone Warehouse as follows: (i) £200,000 on each of the first, second and third anniversaries of the Launch Date; and (ii) £400,000 on the fourth anniversary of the Launch Date.

The agreement contains a mutual exclusivity provision to the effect that neither party can contract with a competitor of the other party, in relation to the provision of similar goods/services. However, where: (i) the value of the lease agreements entered into over a 12 month period; and (ii) the acceptance rate of individuals wishing to enter into a lease agreement over the same period fail to match the annual targets, the parties agree to co-operate in order to implement a plan (the "**Target Plan**") to achieve the annual target during the next 12 months. Where, following the implementation of the Target Plan, the annual targets are not met, the exclusivity provisions cease to apply. The exclusivity obligations will also cease to apply if the Group is unable to provide lease agreements to Carphone Warehouse's customers as a result of the Group's non-availability of funding for a period of 30 days or more. Additionally, if the Group is unable to provide lease agreements to Carphone Warehouse's customers for a period of 90 days or more, Carphone Warehouse shall be entitled to give notice that its exclusivity obligations shall cease to apply, or shall be able to terminate the agreement.

In addition, the agreement contains a carve-out such that the Group shall not be bound by the exclusivity provisions, in circumstances where Carphone Warehouse expressly provides its consent to the Group entering into an arrangement which would otherwise be prohibited. Such consent will always be subject to a number of conditions, including: (i) Connected World Services Distribution Limited ("**CWSDL**") (a member of the Carphone Warehouse group) acting as an 'introducer' for the purposes of such arrangements; (ii) the parties

agreeing the commercial terms on which ‘introductions’ by CWSLD shall be made; and (iii) the Group complying with any other conditions imposed by Carphone Warehouse in relation to the consent.

The agreement may be terminated by either party in the following instances: (i) on giving 6 months’ written notice to the other party, such notice not to expire prior to the expiry of the Carphone Minimum Term; (ii) the other party has committed a material breach of its obligations; (iii) the other party is insolvent or unable to pay its debts; or (iv) the other party fails to obtain or renew any licence, approval or consent required to lawfully fulfil its obligations under the contract.

In addition, the parties may also terminate the agreement prior to the expiry of the Carphone Minimum Term if either party’s commercial objectives have not been met. Specifically, the parties shall meet, not less than 60 days prior to the third and fourth anniversaries of the Launch Date, to consider whether the lease agreement provided by the Group continue to satisfy the commercial assumptions and objectives agreed by the parties under the agreement (including, for example, the performance of Upgrade Everytime as against the annual target, and the competitiveness of Upgrade Everytime when viewed as against the industry more generally). If at such meeting, one (or both) of the parties considers that assumptions or objectives have not been met, the parties shall, for the period to the next anniversary of the Launch Date, consider whether the agreement can be amended so as to ensure that the assumptions and objectives can be met going forward. If, on the expiry of the period referred to above, one (or both) of the parties remains of the opinion that the assumptions and objectives (as amended) are not being met, such party may terminate the agreement on 6 months’ notice to the other. During such period, neither party shall be obliged to market or provide the lease agreement provided by the Group.

The Group is solely responsible for the leasing agreements’ regulatory compliance (including consumer credit regulations) and provides warranties in respect of the same. The Group is also required to indemnify Carphone Warehouse in respect of any losses suffered by Carphone Warehouse in connection with the Group’s day to day administration of the lease agreement with consumers, debt collection, credit risk, fraud or credit recovery activities.

## 16.6 STB Operating Agreement

RentSmart has entered into the STB Operating Agreement whereby a maximum amount of up to £60 million has been made available to RentSmart. Under the STB Operating Agreement, RentSmart acts as agent of STB, and facilitates the entry into leases (both B2B and B2C) between STB and customers. RentSmart, as agent of STB, purchases from retailers (approved by STB) equipment which is to become the subject of the leases. STB then funds the purchase of this equipment and pays to RentSmart a transaction fee and the invoice prices for those leases.

Approximately 35% of the available £60 million facility was utilised as at 30 June 2016.

The STB Operating Agreement is due to terminate at the end of the “Term” i.e. the period up to (but excluding) the date of termination of the STB Operating Agreement (the “**Termination Date**”). The Termination Date is either (i) 1 July 2018 if either party designates this date to be the Termination Date in a notice to be delivered to the other party during the period from (and including) 19 October 2017 to (but excluding) 19 November 2017 (the “**Scheduled Termination Date Notice**”) or (ii) if no Scheduled Termination Date Notice has been delivered, then on or after 1 July 2018 either party may deliver a notice designating the Termination Date provided that the Termination Date does not fall earlier than 6 months from the date of effective service of such notice.

The parties must enter into discussions in good faith by no later than 19 July 2017 as to whether the STB Operating Agreement should be renewed/extended and on what terms.

The arrangements under the STB Operating Agreement are supported by (amongst other agreements) the STB CDS, the STB TA Guarantee and security granted by RentSmart to STB over rental collection accounts.

#### **16.7 STB Invoice Discounting Agreement**

The Group has also entered into an invoice discounting finance agreement up to a limit of £20 million with STB for the leases which it expects to be written under Upgrade Everytime. This funding will be available for a minimum period of 36 months and thereafter can be terminated by either party serving 6 months' notice on the other party. This funding is supported by guarantees and security from a number of members of the Group.

#### **16.8 Santander Facility Agreement**

TFSL has entered into the Santander Facility Agreement for an amount up to £10 million which may be drawn for application towards working capital purposes of the Group. Under the Santander Facility Agreement, RentSmart (as originator) purchases the equipment which is to become the subject of the leases from a retailer. RentSmart (as originator) assigns and sells to TFSL its interest in the leases, receivables and goods. TFSL subsequently notifies Santander of all such eligible leases, and based on this information, Santander calculates availability (i.e. the maximum advance possible) under the Santander Facility Agreement.

As at 30 June 2016, approximately £3.6 million of the £10 million facility had been utilised by TFSL.

The "Availability Period" for the Santander facility is (i) the "Minimum Period" (which is the period up to 15 May 2018), and (ii) thereafter, such period until the earlier to occur of (a) a "Termination Event" under the Santander Facility Agreement or (b) the expiry of three months following the service of a notice to terminate the "Availability Period".

The arrangements under the Santander Facility Agreement are supported by (amongst other agreements): certain guarantees and security provided by TSEL, RentSmart and TFSL and the Santander TA Guarantee.

#### **16.9 Beaufort Introduction Agreement**

The Company has entered into an introduction agreement with Beaufort on or around the date of this document, pursuant to which the Company has agreed to introduce the Shareholders to Beaufort for the purposes of Beaufort providing share to depositary interest conversion and/or retail broking services to the Shareholders. The Company is not paying Beaufort a fee pursuant to the arrangement. Beaufort is not paying the Company commission for referring Shareholders to them. The introduction agreement contains certain undertakings given by the Company in respect of, *inter alia*, compliance with all applicable laws. There is also an indemnity given by the Company in respect of direct action by the Company giving rise to a claim against Beaufort. The appointment under the introduction agreement is subject to termination on the giving of not less than one month's written notice by either party. In certain circumstances either party can terminate the agreement with immediate effect. The agreement is only expected to last for a period of three months.

#### **16.10 Share and Unit Sale Agreement between the Company Flexirent and FlexiGroup**

On 12 December 2013, the Company entered into a share and unit sale agreement (the "**Flexirent SPA**") with Flexirent and FlexiGroup, pursuant to which the Company sold to Flexirent the entire issued share capital in RentSmart Pty Ltd, SmartCheck Pty Ltd and ThinkSmart Finance Limited and all the issued units in the RentSmart Unit Trust, being the entities that conducted the Company's business in Australia and New Zealand.

The Flexirent SPA provides that if the Company enters into a transaction pursuant to which it ceases to wholly own the part of the business not based in Australia or New Zealand before the "Final Claims Date", the Company must, as a condition precedent to such transaction, novate the Flexirent SPA to the UK-incorporated company that wholly owns and conducts that business. The "Final Claims Date" is the later of: (i) 4 years and 30 days after the lodgement of the income tax return of the head company of the Company's consolidated group (being the Company) for the period including 31 January 2014; and (ii) the date on which all claims by Flexirent against the Company under the Flexirent SPA have been resolved or satisfied in accordance with the provisions of the Flexirent SPA.

The Flexirent SPA contains certain indemnities and warranties given by the Company to Flexirent. In relation to certain of these warranties and indemnities, the Company's liability is capped at 35% of the purchase price. In relation to other warranties and indemnities (including in relation to the tax warranties), the Company's liability is capped at 100% of the purchase price. The purchase price, before any applicable adjustments, was \$43 million. In relation to certain of these warranties and indemnities, the time for Flexirent to bring a claim against the Company has lapsed. In relation to the other warranties and indemnities (including in relation to the tax warranties), the Company may only be liable if a claim against the Company is brought by Flexirent prior to late 2018.

#### **16.11 Depository Agreement**

The Company has entered into the Depository Agreement pursuant to which the Depositary will agree to provide depositary services to the Company. Pursuant to the Depository Agreement, the Depositary will issue the Depositary Interests in favour of the holders of the Ordinary Shares from time to time. The Depository Agreement contains certain undertakings and indemnities given by the Company to the Depositary. The agreement is for an initial period of one year and is terminable upon not less than six months' prior written notice by either the Company or the Depositary.

#### **17 Consents**

KPMG has given and not withdrawn its consent to the inclusion in this document of its accountants' report on the Group set out in part 3 of this document, in the form and context in which it appears and has authorised its report for the purposes of Schedule Two of the AIM Rules.

Canaccord Genuity has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which it appears.

#### **18 Takeover Offers**

The Company is not resident in the UK, the Channel Islands or the Isle of Man and it is therefore not subject to the UK City Code on Takeovers and Mergers as issued and administered by the Panel on Takeovers and Mergers. There are, however, protections offered under the Corporations Act (please see section 19 of part 1).

As the Company is incorporated and registered in Australia, the Company will be governed by the chapter 6 of the Corporations Act. A summary of the key provisions under the Corporations Act relating to takeovers is set out in section 19 of part 1 of this document.

#### **19 Group Employees**

As at 30 June 2016, the Group had 83 employees (81 based in the UK and 2 in Australia).

#### **20 General**

- 20.1 Save as disclosed in this document, no person (other than the Company's professional advisers named in this document and trade suppliers) has at any time within the 12 months preceding the date of this document received, directly or indirectly, from the Company or any other member of the Group or entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more.
- 20.2 The auditors of the Company are KPMG LLP, chartered accountants, registered auditors and a member firm of the ICAEW, of 15 Canada Square, London E14 5GL. The financial information relating to the Company set out in this document does not comprise statutory accounts for the purposes of section 431 of the Companies Act 2006.
- 20.3 Save as otherwise disclosed in this document, the Company currently has no significant investments in progress and the Company has made no firm commitments concerning future investments.

- 20.4 Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences, particular contracts or manufacturing processes on which the Company is dependent.
- 20.5 The Ordinary Shares have previously traded on the ASX from 4 June 2007 until the Company's delisting on or around the date of Admission. The Company confirms that, following due and careful enquiry, during the period in which the Ordinary Shares were traded on the ASX, it adhered to the legal and regulatory requirements involved in having securities on the ASX.
- 20.6 All announcements made by the Company since its admission to ASX on 4 June 2007 are available at <http://thinksmartworld.com/investors/>.
- 20.7 The Ordinary Shares are issued and allotted in registered form under the laws of Australia and their currency is Australian Dollars. The Ordinary Shares have no par or nominal value and the company does not have a limited amount of authorised share capital. The Ordinary Shares will be traded in pence.
- 20.8 Save in connection with the application for Admission and save as noted in respect of the Company's proposed delisting from the ASX, none of the Ordinary Shares has been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange. No admission to listing or trading of the Ordinary Shares is being sought on any stock exchange other than AIM.
- 20.9 The Directors intend to comply with Rule 21 of the AIM Rules for Companies relating to Directors' and applicable employees' (as defined in the AIM Rules for Companies) dealings in Ordinary Shares and, to this end, the Company shall adopt a share dealing policy.
- 20.10 Save as disclosed in this document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the current financial year.
- 20.11 Save as disclosed in this document, the Directors are unaware of any person other than a member of the administrative, management or supervisory bodies of the Company who, directly or indirectly, has an interest in the Company's capital or voting rights which is notifiable under the laws of Australia.
- 20.12 Save as disclosed in this document, the Directors are unaware of any arrangements which may at a subsequent date result in a change in control of the Company.
- 20.13 Information in this document which has been sourced from third parties has been accurately reproduced and, so far as the Company is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 20.14 Save as disclosed in this document, there are no restrictions or limitations preventing the Ordinary Shares from being freely transferred.

## 21 Significant Shareholders

<b>Significant Shareholders</b>	<b>Prior to Admission</b>		<b>At Admission</b>	
	<b>Number of Ordinary Shares</b>	<b>Issued share capital (%)</b>	<b>Number of Ordinary Shares</b>	<b>Issued share capital (%)</b>
Natale Ronald Montarello	30,309,356*	28.74*	30,309,356*	28.74*
Henderson Global Investors Ltd	20,000,000	18.96	20,000,000	18.96
Peter J T Gammell	10,687,572	10.13	10,687,572	10.13
Forager Funds Management Pty Ltd	5,468,720	5.18	5,468,720	5.18

Note: The table above displays beneficial holdings, which may be held through nominee accounts.

\*Includes 1,750,000 Ordinary Shares held as part of the Company's long term incentive plan for employees.

22 **Copies of this document**

Copies of this document are available to the public free of charge on the Company's website [www.thinksmartworld.com](http://www.thinksmartworld.com) and will also be available in hard copy to the public free of charge, during business hours on any week day (public holidays excepted) at the offices of Macfarlanes LLP, at 20 Cursitor Street, London EC4A 1LT from the date of this document until at least one month from the date of Admission.

Dated 1 December 2016





