# THINKSMART LIMITED
# ABN 24 092 319 698

# FINANCIAL REPORT
# FOR THE YEAR ENDED
# 30 JUNE 2022

# Contents

# Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of ThinkSmart Limited ("the Company" or "ThinkSmart") and the entities it controlled at the end of, or during, the year ended 30 June 2022, and the auditor's report there on.

**DIRECTORS**

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

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

**Ned Montarello**
*Executive Chairman & CEO*

Ned was appointed Executive Chairman on 22 May 2010 and is also CEO (since 3 January 2018). He founded ThinkSmart in 1996 and through this vehicle has been credited with elevating the Nano-Ticket rental market sector (the lease of high - volume low-value, i.e. A$500-A$10,000 equipment) in Australia, receiving the EY and Telstra Australian Government's Entrepreneur of the Year Award in 1998. In 2007 Ned successfully listed, via $204m IPO, the business in Australia and subsequently migrated the listing to the UK AIM in 2016. Ned continued to drive the business to maintain its sector leading IP in point of sale finance with the introduction of e-sign to its process ensuring that it maintained its relevance to the fast moving retail environment. He led the development of the Group's Australian distribution network, led the business expansion into Europe and in 2017 launched Clearpay Finance Limited ("Clearpay") in the UK. In 2018, he successfully negotiated the sale of 90% of Clearpay to the emerging, global, industry leading Afterpay Limited ("Afterpay").

**Peter Gammell**
*Non-Executive Director, Chair of the Remuneration and Nomination Committee*

Peter is a Non-Executive Director of One Ventures Pty Ltd, a Venture Capital fund manager based in Sydney. Previously Peter was Managing Director and CEO of Seven Group Holdings (2010-2013) and Managing Director of Australian Capital Equity Pty Ltd (1989-2010). Peter is also Chairman of Octet Group Holdings Pty Ltd and former Chairman of Scottish Pacific Business Finance Pty Ltd. Peter is Chair of the Remuneration and Nomination Committee of ThinkSmart.

**Gary Halton**
*Chief Financial Officer*

Gary was appointed to the Board on Admission to London AIM 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.

**David Adams**
*Non-Executive Director, Chair of the Audit and Risk Committee*

David was appointed to the Board on Admission to London AIM and has over 30 years of experience. He has previously held executive roles including Chief Financial Officer and Deputy Chief Executive Officer of House of Fraser plc and non-executive roles including Debenhams plc, Jessops plc, Moss Bros plc, Fevertree Drinks plc, Conviviality plc, Hornby plc and Halfords plc. David's current appointments include serving as a Non-Executive Director of Pizza Express, Non-Executive Director and Chair of the Audit and Remuneration Committees of DP Eurasia Plc, Trustee of Walk the Walk (a breast cancer charity), and Trustee of The Hackney Empire. David is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee, and was appointed Senior Independent Non-Executive Director on 10 June 2021.

**COMPANY SECRETARIES**

Kerin Williams (UK resident)
Jill Dorrington (Australian resident)

## PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the provision of lease and rental financing services in the United Kingdom ("UK") and the holding of a financial asset.

## OPERATING AND FINANCIAL REVIEW

The Board presents its Operating and Financial Review for the year ended 30 June 2022 and this information should be read in conjunction with the consolidated financial statements and accompanying notes.

**Business model**
ThinkSmart is a leading digital payments company and provider of leasing finance for both consumers and businesses.

ThinkSmart's core capability is to provide customer life cycle contract management through its market leading proprietary technology platform 'SmartCheck'.

ThinkSmart ceased writing new business in February 2021 and as such its leasing business is in managed wind-down.

ThinkSmart retains a holding of 618,750 shares in New York Stock Exchange ("NYSE") listed Block Inc ("Block") and provides an outsourced call centre customer support service for Block's UK subsidiary Clearpay.

**Key financial data**

| | **12 Months to June 2022 £,000** | **12 Months to June 2021 £,000** | **Variance £,000** | **Variance %** |
|---|---|---|---|---|
| Revenue | **3,269** | **4,286** | (1,017) | -24% |
| Other revenue | **207** | **62** | 145 | +234% |
| **Total revenue** | **3,476** | **4,348** | (872) | -20% |
| | | | | |
| Customer acquisition costs | **(74)** | **(258)** | 184 | +71% |
| Cost of inertia assets sold | **(166)** | **(335)** | 169 | +50% |
| Other operating expenses | **(2,704)** | **(3,431)** | 727 | +21% |
| Depreciation and amortisation | **(802)** | **(1,401)** | 599 | +43% |
| Impairment (losses)/gains | **(103)** | **41** | (144) | -351% |
| (Losses)/gains on Financial Instruments | **(93,696)** | **71,267** | (164,963) | -231% |
| Other gains | **-** | **1,450** | (1,450) | -100% |
| **(Loss)/Profit before tax from continuing operations** | **(94,069)** | **71,681** | (165,750) | -231% |
| Income tax expense | **(11)** | **(17)** | 6 | +35% |
| **(Loss)/Profit after tax** | **(94,080)** | **71,664** | (165,744) | -231% |

**Summary of results**
- Net loss after tax of £94.1 million in the year down 231% on the prior financial year.
- Fair value of holding in Block generated a loss on financial instruments of £93.7 million in the year.
- Basic Loss Per Share of 88.27 pence at 30 June 2022 down -231% from Earnings Per Share of 67.28 pence at 30 June 2021.
- The Group returned £3.4 million (A$5.6 million) to shareholders in December 2021. In June 2022 shareholders approved a dividend of £0.4 million (A$0.7 million) to be paid in July 2022 and this has been accrued in these FY22 financial statements.
- Available cash assets of £5.5 million at 30 June 2022, down £1.6 million on prior financial year end position after the aforementioned £3.0m payment to shareholders.
- Net assets are £37.0 million at 30 June 2022 (2021: £134.5 million), equivalent to 34.71 pence per share (2021: 126.20 pence per share).

**Review of operations**

***UK***

The UK business generated a profit (before intercompany recharge of corporate costs) of £0.3m (2020: £0.4m loss) which was achieved through the ongoing managed winding up of the businesses core leasing products following the cessation of new business originated through Dixons in February 2021. Inertia income performed well throughout the year as did insurance commission income which, combined with the managed cost reduction, drove profitability in the UK operations. In addition, the UK business continued to provide an outsourced call centre customer support service for Clearpay which generated revenue of £0.8m (2021: £0.9m).

On 31 January 2022 the Group purchased the portfolio of leases held by STB under the STB Operating Agreement for £1.2m. This transaction terminated the Operating Agreement along with the Credit Default Swap (CDS) with STB releasing the £2m credit support balance held in relation to the CDS. The transaction was settled net with RentSmart receiving £0.8m of cash from STB on 08 February 2022. The purchase of the portfolio of leases has required RentSmart to recognise a lease receivable for the purchased portfolio which will generate lease income as the contracts are collected out. Simultaneously the deferred brokerage income, contract rights, provisions and credit support balance have been de-recognised. This has resulted in a transition from accounting for brokerage under IFRS 15 – Revenue to lease accounting under IFRS 16 – Leases.

UK Operating costs reduced by 28% to £2.2m (2021: £2.6m) and remained controlled, aligned to current business activities.

***Corporate***

Corporate costs (before intercompany recharge of corporate costs) were £0.7m for the 12 months to 30 June 2022 (2021: £0.6m).

**Summary Financial Position**

| | 30 June 2022<br>£,000 | 30 June 2021<br>£,000 | Variance<br>£,000 | Variance<br>% |
|---|---|---|---|---|
| Cash and cash equivalents | **5,536** | **7,067** | (1,531) | -22% |
| Other assets | **32,565** | **128,621** | (96,056) | -75% |
| Goodwill and intangibles | **188** | **590** | (402) | -68% |
| Total assets | **38,289** | **136,278** | (97,989) | -72% |
| Other liabilities | **(1,295)** | **(1,821)** | 526 | +28% |
| Total liabilities | **(1,295)** | **(1,821)** | 526 | +28% |
| Equity | **36,994** | **134,457** | (97,463) | -72% |

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

On 29 July 2022 the Company announced that it has entered into a binding Scheme Implementation Deed with Tuscan Equity Pty Ltd ("Tuscan Equity") under which Tuscan Equity would acquire the entire issued share capital of ThinkSmart pursuant to a scheme of arrangement under the Australian Corporations Act 2001 (Cth) ("the Scheme").

Tuscan Equity is a company limited by shares that was incorporated in Australia for the purposes of the Scheme and is wholly owned and controlled by Ned Montarello, ThinkSmart's Executive Chairman, CEO, founder and current 29.4% shareholder (29.94% on a fully diluted basis including all vested but currently unexercised share options). As such, an Independent Board Committee ("IBC"), comprising all of the directors of ThinkSmart other than Mr Montarello, was established to consider the proposal for the Scheme on behalf of ThinkSmart.

Under the Scheme, Tuscan Equity will acquire 100% of ThinkSmart's issued shares, including the shares owned and/or controlled by Mr Montarello. In exchange, ThinkSmart shareholders, other than Mr Montarello and entities he controls ("ThinkSmart Independent Shareholders"), will be entitled to receive cash consideration equal to the proceeds realised from the post-Scheme implementation sale on the New York Stock Exchange ("NYSE") of the proportion of the 618,750 shares in Block Inc ("Block") held by ThinkSmart attributable to their shareholding in ThinkSmart (net of their proportion of sale fees, which are expected to be approximately 0.5% of the gross proceeds from the sale of the Block shares held by ThinkSmart and after conversion into Pounds Sterling or Australian dollars (as applicable)).

Under the Scheme, Tuscan Equity will also acquire all of the ThinkSmart shares held by Mr Montarello and entities he controls in exchange for shares in Tuscan Equity, or if Mr Montarello so elects, part or all of Mr Montarello's shares in ThinkSmart may be acquired by Tuscan Equity for cash consideration, in which case he will receive the same cash consideration as the ThinkSmart Independent Shareholders funded by a proportionate increase in the number of Block shares that will be sold by ThinkSmart post-Scheme implementation.

The cash consideration to be paid under the Scheme will be determined shortly following implementation of the Scheme when the relevant number of Block shares owned by ThinkSmart are sold on the NYSE. The number of Block shares sold will be that percentage of ThinkSmart's 618,750 Block shares that is equal to the percentage of shares in ThinkSmart held by ThinkSmart Independent Shareholders together with any shares Mr Montarello elects to sell to Tuscan Equity for cash consideration, rounded to the nearest whole number of Block shares.

The actual cash consideration received by ThinkSmart Independent Shareholders for their ThinkSmart shares (and Mr Montarello for any ThinkSmart shares he owns or controls and which he elects to sell to Tuscan Equity for cash consideration) will be determined based on the actual sale price achieved for the relevant number of Block shares sold by ThinkSmart on the day they are sold (net of sale fees and after currency conversion) and will therefore not be known until after the Scheme has been implemented. By way of example, the Block closing share price on the NYSE on 21 July 2022 was US$74.76. If the Block shares were sold for US$74.76 per share and the sale fees equated to 0.5% of the proceeds, ThinkSmart shareholders who receive the Scheme consideration in Pounds Sterling (being holders of depositary interests and holders of ThinkSmart shares who elect to receive Pounds Sterling) would receive approximately 36.01 pence per ThinkSmart share (assuming 1.1992 USD: 1 GBP). This compares to the ThinkSmart closing share price on AIM on 21 July 2022 of 25.00 pence and would represent a 44.0% premium to that closing price of ThinkSmart shares.

Holders of ThinkSmart Depositary Interests will be paid the Scheme consideration in Pounds Sterling, while holders of ThinkSmart shares who do not hold via Depositary Interests will receive the Scheme consideration in Australian dollars but can make an election to receive Pounds Sterling.

Holders of the 1,679,532 ThinkSmart employee share options, which include Mr Montarello, Mr Halton and another member of ThinkSmart's executive team, will be able to exercise their options prior to the Scheme taking effect (these options all being currently vested and free of any conditions to their exercise). Any shares issued on exercise of share options will also be acquired by Tuscan Equity under the Scheme.

Following implementation of the Scheme, ThinkSmart will be controlled by Mr Montarello. Following the subsequent payment of the Scheme consideration by Tuscan Equity to satisfy its obligations under the Scheme, Tuscan Equity, via its 100 % ownership of ThinkSmart, will hold the remainder of the Block shares that are not sold, as well as ThinkSmart's remaining business operations which comprise ThinkSmart's legacy leasing business, which is undergoing a managed wind down, and the provision of an outsourced call centre customer support service to support the Clearpay business that was previously owned by ThinkSmart.

The implementation of the Scheme is subject to shareholder, regulatory and Court approval.

## RISKS

The Directors of ThinkSmart accept that risk is an inherent part of doing business and actively identify, monitor and manage material risks. Key material risks faced by the Group are:

**The Group is exposed to the risk of default or fraud by its customers**
The credit quality of accepted customers and the Group's policies and procedures to mitigate payment defaults has an impact on the Group's financial performance through impairment. Robust credit checking during the origination of leases and ongoing collection processes assist in managing and mitigating this risk.

**The valuation of financial instruments held by the Group are subject to market volatility**
ThinkSmart holds 618,750 shares in Block which is a NYSE listed company. This is a Level 1 Financial Instrument where the price of this stock is transparent and readily observable giving a reliable fair value. Over the last year there has been a significant market wide re-valuation of tech stocks reflecting changing investor attitudes and valuation methods. Combined with a challenging macro-economic environment the market risk presents ongoing potential for market volatility.

**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. The outlook for the UK economy remains somewhat

uncertain as businesses adjust to operating under new UK-EU trade terms following the UK leaving the EU on 31 January 2020. The changes to consumer behavior driven by COVID-19 and the effect of Russia's invasion of Ukraine add to the uncertainty in the UK economic outlook. Adverse economic conditions in the UK, such as unemployment, or dramatic increases in inflation could also have a negative impact on the financial circumstances of the customers to whom the Group has financial exposure to.

**COVID-19**
Thanks to operating in a less affected sector of the economy, robust business continuity processes, proactive management and timely access to government support, the Group has so far been only minimally impacted by COVID-19. Having assessed the critical areas of cash flows, going concern, impairment of assets, accounting estimates and judgements and expected credit losses, the Group has more than adequate resources to meet its liabilities as they fall due even when stressed to reasonable worst case scenarios.

Prior to the outbreak of COVID-19 the Group already had in place a robust risk management structure which has been augmented by the adoption of a specific COVID-19 risk assessment and associated updates to operating procedures. The Group has facilitated remote working for all staff and supports a safe working environment with a focus on staff health and wellbeing. The Group has in place adequate measures to ensure that its going concern status and ongoing performance will not be materially compromised by the impact of COVID-19.

**The Group is exposed to changes in Government policies**
Government policies (of both the UK and Australia) are subject to review and change on a periodic basis. 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.

**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. The Financial Conduct Authority ("FCA") is the regulatory body responsible for the consumer credit industry in the UK. The Group's activities are regulated by a regulatory framework based on a combination of the Financial Services and Markets Act 2000 and its secondary legislation, the provisions of the Consumer Credit Act 1974 and the FCA Rules. The volume and demands of regulation, and the regulatory scrutiny have increased since the transfer of regulatory powers from the Office of Fair Trading to the FCA in 2014.

In February 2021 the FCA published the Woolard Review on how regulation can support the market for unsecured lending including the developing buy-now-pay-later (BNPL) sector in which Clearpay, a subsidiary of Block, is a market leader. The report recognises that BNPL offers consumers a significant alternative to more expensive traditional credit. The report also recognises that the current lack of regulation creates potential for consumer harm. Clearpay is committed to promoting good consumer outcomes and continues to work with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempt BNPL products. The Group is a supplier of outsourced services to Clearpay.

**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. Any such damage or interruption could cause significant disruption to the operations of the Group, its ability to trade and its reputation.

**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.

**DIVIDENDS**

At the AGM on 10 November 2021 shareholders approved a return of capital of AUD $5,595,008 to shareholders (the 'Distribution') in two parts:

1. a capital reduction, pursuant to which the Company will return 4.4618 cents per share (or depositary interest) to shareholders (or depositary interest holders) ('Return of Capital'); and

2. a special unfranked dividend of 0.7874 cents per ordinary share (or depositary interest) - declared as attaching conduit foreign income ('Dividend').

The return of capital and dividend had a record date of 12 November 2021 and were paid on 8 December 2021.

At the GM on 29 June 2022 shareholders approved a return of capital of AUD $4,412,523 to shareholders (the 'Distribution') in two parts:

1. a capital reduction, pursuant to which the Company will return 3.5188 cents per share (or depositary interest) to shareholders (or depositary interest holders) ('Return of Capital'); and

2. a special unfranked dividend of 0.6210 cents per ordinary share (or depositary interest) ('Dividend').

The return of capital and dividend had a record date of 1 July 2022 and were paid on 15 July 2022. Having been approved by shareholders on 29 June 2022 the dividend has been accrued in the financial statements for the year ending 30 June 2022.

**SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD END DATE**

On 29 July 2022 the Company announced that it has entered into a binding Scheme Implementation Deed with Tuscan Equity Pty Ltd ("Tuscan Equity") under which Tuscan Equity would acquire the entire issued share capital of ThinkSmart pursuant to a scheme of arrangement under the Australian Corporations Act 2001 (Cth) ("the Scheme"). See LIKELY DEVELOPMENTS AND EXPECTED RESULTS above for further details.

Other than this, there has not arisen, in the interval between the end of the financial period and the date of this report, any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**SIGNIFICANT CHANGES IN THE GROUP'S STATE OF AFFAIRS**

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report that have not otherwise been disclosed elsewhere in the Annual Report.

## CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

**The Principles of Corporate Governance**
As Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level. As a Board we recognise the importance of high standards of corporate governance and their importance and support to our strategic goals and long-term success. The Company is listed on AIM and is therefore required to provide details of a recognised corporate governance code that the Board of Directors have decided to apply. We continue to acknowledge the importance of the principles of the QCA Corporate Governance Code (the "QCA Code"). Our Directors' report sets out how we apply the QCA Code principles and explains how our Board and Committees operate. As a Board we believe that, with the exception of principle 7, we apply the principles of the QCA Code.

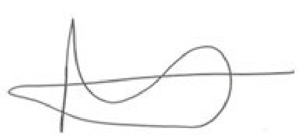
**Deliver Growth**
The Board has collective responsibility for setting the strategic aims and objectives of the Group. This strategy is set out in the Group Strategy section of the Directors' Report and the business model can be found in the Operating and Financial Review section of the Directors' Report.

The Board also has responsibility for the Group's internal control and risk management systems and structures. Our risk management process is embedded into the business and starts at Board level but is delivered through the Group. The Board regularly considers and reviews the risks and opportunities for the business and ensures that the mitigation strategies in place are the most effective and appropriate to the Group's operations. Further details on our risks can be found in the Risks section of the Directors' report.

**Dynamic Management Framework**
As Chairman, I consider the operation of the Board as a whole and the performance of the Directors individually regularly. We have not carried out a board performance evaluation so we have not complied with principle 7 of the QCA Code which requires the Company to carry out a board performance evaluation. We are however a small and cohesive Board that openly discusses its performance and effectiveness against strategy on a regular basis.

Responsibility for the overall leadership of the Group and setting the Group's values and standards sits with the Board. We understand that these values influence and shape our business. Our Company values of being Accountable, Straightforward, Challenging and operating with Dignity and Respect are taught to all employees and ensure the customer is at the centre of everything we do. These values also ensure a unified culture and consistent behaviors across our business.

**Build Trust**
During the year ThinkSmart has undertaken a number of investor relations activities. These include investor roadshows, participation at investor conferences and attending other events where investors have the opportunity to meet and talk to the Directors and senior management. During the year the Board has continued to review governance and the Group's corporate governance framework. We have again reviewed our governance against the QCA Code in June 2022 and will continue to do so annually as required by AIM Rule 26.



Ned Montarello
Executive Chairman, 14 September 2022

## BOARD STRUCTURE AND OPERATION

The Board comprises two Executive Directors being Ned Montarello (Chairman) and Gary Halton (CFO), and two Non-Executive Directors, being David Adams and Peter Gammell, whom the Board believe are independent. The Board continues to consider that its composition gives the necessary mix of industry specific and broad business experience necessary for the effective governance of the Group.

There are certain matters specifically reserved to the Board for its decision ('List of Reserved Matters') which includes responsibility for the overall management of the Group and long-term objectives and strategy, approvals of the annual budget, major expenditure and investments and key policies. Board meetings are held on a regular basis and effectively no decision of any consequence is made other than by the Board. Directors also have ongoing contact on a variety of issues between formal meetings. All Directors participate in the key areas of decision making. The agenda for the board meetings is prepared by the Company Secretary in consultation with the Chairman and the Board.

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. All Directors have access to the Company Secretary. The Directors who served during the year, and a brief biography of each, is set out on page 2. The Board is supported in its work by Board Committees which are responsible for a variety of tasks delegated by the Board.

**Board Committees**
The Board has delegated specific responsibilities to the Audit Committee and the Remuneration and Nominations Committee. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. These terms of reference are reviewed annually to ensure they remain relevant and appropriate and reflect changes to legislation and best practice.

**Training and Development**
Directors are encouraged to attend training and continuing professional development courses as required. The Company Secretary provides updates at each Board meeting on governance and regulatory matters.

**Time Commitment**
The nature of the role of Non-Executive Directors makes it difficult to place a specific time commitment however, a minimum of two days per month is what the Company anticipates as reasonable for the proper performance of duties. Directors are expected to attend all Board and Committee meetings as well as the Annual General Meeting.

**External Advisers**
The Board seeks advice on various matters from its Nominated Adviser (Canaccord Genuity) and lawyers (Shoosmiths in the UK and Herbert Smith Freehills LLP in Australia). The Board also uses the services of an external company secretarial provider, Trakehner Cosec Limited.

**Board Evaluation**
The Company does not currently comply with principle 7 of the QCA Code, which requires the Company to carry out a formal Board performance evaluation. The Board keeps this under review and regularly discusses performance and effectiveness on an informal basis.

**Succession Planning**
The Company through its Remuneration and Nomination Committee has a formal process in place for succession on the Board and for Board appointments. When vacancies arise the Remuneration and Nomination Committee assesses the skills and expertise already on the Board and any additional skills and expertise required. External head hunters are appointed to search for appropriate candidates.

**BOARD MEETING ATTENDANCE**

*Directors' attendance at Board meetings is shown below*

| Director | Board Meetings | Audit and Risk Committee Meetings | Nomination and Remuneration Committee Meetings |
|---|---|---|---|
| N Montarello | 5/5 | - | - |
| P Gammell | 5/5 | 2/2 | * |
| G Halton | 5/5 | - | - |
| D Adams | 5/5 | 2/2 | * |

*Remuneration matters have been carried out via circular resolutions during the year.

During the financial year, in addition to the official board meetings, the board has implemented a number of corporate decisions by virtue of Circular Resolutions as required.

The Board has established an Audit Committee and a Nomination and Remuneration Committee, which each have written terms of reference, to deal with specific aspects of the Group's affairs. The terms of reference for each of these committees is available on the Company's website.

**AUDIT COMMITTEE**

The Audit Committee consists entirely of Non-Executive Directors. The Chairman, David Adams, has extensive financial experience and is a qualified accountant. The other Member is Peter Gammell. The Audit Committee meets as often as it deems necessary but in any case at least twice a year, with meetings scheduled at appropriate intervals in the reporting and audit cycle. Although only members of the Committee have the right to attend meetings, standing invitations are extended to the Executive Chairman and the Chief Financial Officer who attend meetings as a matter of practice. Other non-members generally attend all or part of any meeting as and when appropriate. The external auditors attend all meetings and also have the opportunity to meet in private with the Committee on each occasion. In addition, the Chairman of the Audit Committee has regular contact with the external auditors throughout the year.

**Duties**
The main duties of the Audit Committee are set out in its Terms of Reference and include the following:

- To engage in the pro-active oversight of the Company's financial reporting and disclosure processes and overseeing and reviewing the outputs of the process;
- To monitor the integrity of the consolidated financial statements of the Company, including its annual and half-year reports;
- To review and challenge where necessary the consistency of and any changes to significant accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, the going concern assumption and all material information presented with the consolidated financial statements;
- Ensure procedures are in place which are designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management;
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls and auditing matters and the procedures for the confidential, anonymous submission of concerns by employees;
- To consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Company's external auditor;
- To oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- To meet regularly with the external auditor and at least once a year, without any Executive Director or other member of management present to discuss any issues arising from the audit; and
- To review and approve the Audit Plan and review the findings of the audit.

**The main activities of the Audit Committee during the year**
The principal areas of focus for the Committee included the following items:

- Review of the audit plan, process and scope;
- Review of significant risks;
- Review of significant issues from the audit report;
- Going concern review;
- Review of the Annual and half year Reports;

- Approval of management representation letter; and
- Review of the independence of the Auditor, review of Auditor fees and engagement letter.

The Audit Committee has reviewed the following matters in relation to these financial statements and is of the opinion that the Group has adopted appropriate accounting policies along with the associated estimates and judgements:

| Area of review | Points considered |
|---|---|
| Revenue recognition | The Group has multiple revenue streams which are generated through the provision of finance and leasing services and the holding of a financial asset. The Group recognises revenue under AASB 15 – Revenue from Contracts with Customers, AASB 16 – Leases and AASB 9 – Financial Instruments. For each of these the Audit committee has reviewed the technical accounting documents prepared by the Group's management which detail the rational for the application of each standard along with support for key estimates and judgements. The Audit Committee has considered whether the key estimates and judgements remain valid as the operating environment evolves including the likely impact of COVID-19.<br><br>In addition to their own review the Audit Committee has also considered any matters raised by the external auditors in respect of revenue recognition. The Audit Committee is therefore comfortable that appropriate accounting policies have been applied and that the key estimates and judgements used are fair and reasonable. |
| Management override of controls | The Audit Committee monitors the effectiveness of the Group's operating and risk management framework. The Board of Directors have appointed the Operating and Risk Committee to oversee the implementation of the Group's operating and risk framework including the management of associated corporate governance, training, processes and controls. The Audit Committee has reviewed the reports of the Operating and Risk Committee as presented to the Board. The Audit Committee have considered how the Group's processes and controls are implemented within the overall control environment and are satisfied that these are adequate and proportionate to the associated risks. |

**Role of the external auditor**
The Audit Committee monitors the relationship with the external auditor, BDO, to ensure that auditor independence and objectivity are maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The external auditor did not provide any non-audit services in the year ending 30 June 2022 (2021: £nil). During the year the Audit Committee assessed the auditor's performance by review against the external audit terms of engagement with consideration to the scope of the external audit, timetable, materiality, audit strategy and fees. The Audit Committee reviewed the written reports produced by the external auditors, considered the capabilities demonstrated by the external audit team, their independence, challenge of management and quality of communications. The assessment also took into account the views of the Group's finance team.

**Internal audit**
At present the Company does not have an internal audit function. Given the current size of the Company and control systems that are in place the Committee believes that there is sufficient management oversight to highlight any areas of weaknesses in the financial reporting systems. The Committee reviews the need for an internal function at least annually.

**INTERNAL FINANCIAL CONTROL**

The Board acknowledges its responsibility for establishing and monitoring the Group's systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Group maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved before being formally adopted. Other key procedures that have been established and which are designed to provide effective control are as follows:

Management structure – The Board meets regularly to discuss all issues affecting the Group; and
Investment appraisal – The Group has a clearly defined framework for investment appraisal and approval is required by the Board where appropriate.

The Board regularly reviews the effectiveness of the systems of internal control and considers the major business risks and the control environment. No significant deficiencies have come to light during the year and no weakness in internal financial control have resulted in any material losses, contingencies which would require disclosure as recommended by the guidance for Directors on reporting on internal financial control.

**DIRECTORS' INTERESTS**

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

| | **Number of ordinary shares** | **Options granted over ordinary shares** |
|---|---|---|
| N Montarello | 31,339,886 | 1,073,863 |
| P Gammell | 12,582,572 | - |
| G Halton | - | 470,659 |
| D Adams | 100,000 | - |

**Unissued Shares under Options**
At the date of this report there were 1,679,532 unissued ordinary shares of the Company subject to option or performance rights, comprising:

| **Number of shares under option** | **Exercise price of options** | **Expiry date of options** |
|---|---|---|
| 1,679,532 | £0.1508 | 21 December 2026 |

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

**REMUNERATION REPORT (AUDITED)**

The Nomination and Remuneration Committee is comprised of Peter Gammell (Chairman of the Committee) and David Adams. The Committee is responsible for making recommendations to the Board on the Group's framework of Executive remuneration and its cost, and recommendations on Board recruitment and succession planning. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors. The report on Directors' remuneration is set out on page 16.

The main duties of the Remuneration Committee are set out in its Terms of Reference and include:

- Have responsibility for setting the remuneration policy for the Executive Directors and the Company's Chairman;
- Recommend and monitor the level and structure of remuneration for senior management;
- The authority to appoint remuneration consultants and commission any reports or surveys required to fulfil its remit;
- Approve the design of and determine the targets for any schemes of performance-related remuneration;
- Oversee any major changes in employee benefit structures throughout the Company or Group;
- Agree the policy for authorising claims for expenses from the Executive Directors and Chairman;
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company and that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- Review the structure, size and composition (including the skills, knowledge, experience and diversity);
- Consider succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.

ThinkSmart Limited is an Australian registered company and is not required to prepare a remuneration report that complies with the Australian Corporations Act 2001 (the Act). However, in the interests of maintaining the high standards of corporate governance to which the Directors of ThinkSmart have committed, the following remuneration report has been prepared voluntarily.

This Report details the remuneration arrangements for Key Management Personnel. Key Management Personnel encompass all Directors and those Executives that have specific responsibility for planning, directing and controlling material activities of the Group. In this report, "Executives" refers to the Key Management Personnel excluding the Non-Executive Directors. This Report contains the following sections:

A: Principles of remuneration;
B: Key Management Personnel remuneration;
C: Service agreements;
D: Share Plans;
E: Bonus remuneration; and
F: Key Management Personnel transactions.

**A. Principles of Remuneration**

Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group and, for the year ended 30 June 2022, comprise:

***Executive Directors***
N Montarello – Executive Chairman & Chief Executive Officer
G Halton – Chief Financial Officer

***Non-Executive Directors***
P Gammell
D Adams

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

- Provide competitive rewards to attract, retain and motivate talented Directors and Executives;

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

The remuneration structures take into account:

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

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

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

***Non-Executive Directors***
Fees and payments to Non-Executive Directors reflect the demands which are made on and the responsibilities of the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Directors do not receive share options or loan-funded shares.

***Non-Executive Directors' Fees***
Non-Executive Directors' fees are determined within an aggregate Directors' fee pool of $600,000 per annum and were approved by shareholders at a previous general meeting. The total fees paid in the financial year were £54,547. In addition to these fees, Directors also receive superannuation contributions as required under government legislation. The Company also pays all reasonable expenses incurred by Directors attending meetings and carrying out their duties.

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

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

| | | **At risk** | |
|---|---|---|---|
| | **Fixed remuneration** | **Short-term incentive** | **Long-term incentive** |
| CEO | 100% | 0% | 0% |
| Other executives | 86% | 14% | 0% |

***Base Pay – Fixed Compensation***
Executives are offered a competitive salary that comprises the components of base pay and benefits. Base pay for Executives is reviewed annually by the Nomination and Remuneration Committee or the Executive Chairman to ensure the Executive's pay is competitive with the market and appropriate to the Executive's experience, responsibilities and contribution. An Executive's pay is also reviewed on promotion. Base pay for the Executive Chairman is reviewed periodically by the Nomination and Remuneration Committee.

***Short-Term Performance Incentive***
STIs vary according to individual contracts, however, for Executives they are broadly based as follows:

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

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

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Nomination and Remuneration Committee or the Executive Chairman. The STI targets are reviewed annually. Information on the STI is detailed in section F of the Remuneration Report.

***Long-Term Performance Incentive***
Long-term performance incentives are awarded to Key Management Personnel and other Executives. In May 2012, shareholders approved a Long Term Incentive Plan designed to increase the motivation of staff and to create a stronger link between increasing shareholder value and employee award. This Long Term Incentive Plan was then updated in December 2016 following admission to AIM to be measured against Group EPS. The details of these schemes are set out in the Remuneration Report.

***Consequences of Performance on Shareholder Wealth***
In considering the Group's performance and benefits for shareholder wealth, the Nomination and Remuneration committee have regard to the following indices in respect of the current financial year and the previous three financial years.

| | **12 Months to June 2022** | **12 Months to June 2021** | **12 Months to June 2020** | **Restated 12 Months to June 2019** |
|---|---|---|---|---|
| Profit/(loss) attributable to owners of the company (£,000) | (£94,080) | £71,664 | £53,042 | £8,659 |
| Basic EPS (pence per share) | (88.27) pence | 67.28 pence | 49.80 pence | 8.20 pence |
| Dividends paid (£,000) | £819 | £901 | £1,135 | £2,214 |
| Dividend paid per share (pence) | 0.77 pence | 0.85 pence | 1.09 pence | 2.08 pence |
| Capital return paid (£,000) | £2,559 | £2,757 | £2,047 | £2,186 |
| Capital returned per share (pence) | 2.40 pence | 2.59 pence | 1.92 pence | 2.05 pence |
| Share price at year end | £0.235 | £0.725 | £0.205 | £0.078 |
| Change in share price | (£0.490) | £0.520 | £0.127 | (£0.015) |

## B. Audited Key Management Personnel Remuneration

***Amount of Remuneration -*** Details of the remuneration of the Directors and the Key Management Personnel of the Group are set out below.

| | | Short Term | | | | | Post Employment | | Other Long Term | Share-Based payments | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | STI Cash Bonus | Other | Non-monetary Benefits | Total | Superannuation Benefits | Termination Benefits | Long Service Entitlement | Options & Rights | Shares | Total |
| | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **Directors** | | | | | | | | | | | | |
| **Non-Executive Directors** | | | | | | | | | | | | |
| P Gammell | YE Jun22 | 24,547 | - | - | - | 24,547 | 2,332 | - | - | - | - | 26,879 |
| | YE Jun21 | 24,957 | - | - | - | 24,957 | 2,371 | - | - | - | - | 27,328 |
| D Adams | YE Jun22 | 30,000 | - | - | - | 30,000 | - | - | - | - | - | 30,000 |
| | YE Jun21 | 30,000 | - | - | - | 30,000 | - | - | - | - | - | 30,000 |
| R McDowell (resigned 11 Nov 2020) | YE Jun22 | - | - | - | - | - | - | - | - | - | - | - |
| | YE Jun21 | 7,282 | - | - | - | 7,282 | - | - | - | - | - | 7,282 |
| **Executive Directors** | | | | | | | | | | | | |
| N Montarello | YE Jun22 | 174,776 | - | - | - | 174,776 | 12,856 | - | 2,909 | - | - | 190,541 |
| | YE Jun21 | 177,694 | - | - | - | 177,694 | 12,032 | - | 2,958 | - | - | 192,684 |
| G Halton | YE Jun22 | 148,500 | 25,000 | - | 1,257 | 174,757 | - | - | - | - | - | 174,757 |
| | YE Jun21 | 148,500 | 25,000 | - | 1,257 | 174,757 | - | - | - | - | - | 174,757 |
| **Total** | **YE Jun22** | **377,823** | **25,000** | **-** | **1,257** | **404,080** | **15,188** | **-** | **2,909** | **-** | **-** | **422,177** |
| Total | YE Jun21 | 388,433 | 25,000 | - | 1,257 | 414,690 | 14,403 | - | 2,958 | - | - | 432,051 |

**C. Service Agreements**

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

Remuneration and other terms of employment for the Chief Executive Officer are formalised in a service agreement. All employment agreements are unlimited in term but capable of termination with one to six months' notice by either the Company or the Executive. The Company can make a payment in lieu of notice of an amount equal to the monthly instalment of basic salary for any unexpired period of notice.

In the event of retrenchment, the Executives listed on page 13 are entitled to the payment provided for in the service agreement, where applicable. The employment of the Executives may be terminated by the Company without notice by payment in lieu of notice. The service agreements also contain confidentiality and restraint of trade clauses.

**D. Share Plans**

***New Long Term Incentive Plan***
The Company adopted a new long term incentive plan from December 2016 to align the interests of senior management with those of the Shareholders. The performance conditions of all active Plan Options issued were met during the performance period and consequently these options vested in December 2019, and can be exercised as instructed by the Participants. The options will normally lapse and cease to be exercisable on the 10th anniversary of the Date of Grant.

It is a condition of exercise of the Award that the Participant agrees to pay the Company or any person nominated for this purpose an amount equal to the Tax Liability. In addition there is a condition of exercise of the Award for the Participant to enter into a NIC Agreement to pay Employers' NIC on gains in excess of 100% of the award value at the date of grant.

There are currently 1,679,532 of the above Plan Options currently on issue, as set out in the table below.

| Number of plan options | Performance period | Exercise price | Vesting date | Expiry date |
|---|---|---|---|---|
| 1,679,532 | 01/07/16-30/06/19 | £0.1508 | 21/12/19 | 22/12/2026 |

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

| Directors | Instrument | Number granted and vested | Grant Date | Financial year in which grant vested | Expiry date |
|---|---|---|---|---|---|
| N Montarello | Share options | 1,073,863 | 22/12/2016 | 2020 | 22/12/2026 |
| G Halton | Share options | 470,659 | 22/12/2016 | 2020 | 22/12/2026 |

***Employee Options and Loan-Funded Shares***

| | Held at 30 June 2021 | Held at date of new appointment | Granted as compensation | Exercised | Cancelled, forfeited or expired | Held at 30 June 2022 | Vested during the year | Vested and exercisable at 30 June 2022 |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| N Montarello | 1,073,863 | - | - | - | - | 1,073,863 | - | 1,073,863 |
| G Halton | 470,659 | - | - | - | - | 470,659 | - | 470,659 |

All of the amounts held at 30 June 2022 are Employee Share Options.

***Movement in shares***

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

| | Held at 1 July 2021 | Purchases | Rights issue | Held at date of appointment | Sales | Received on exercise of options | Loan-funded share issue | Loan-funded share issue cancelled, forfeited or expired | Granted as compensation | Held at 30 June 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| N Montarello | 31,339,886 | - | - | - | - | - | - | - | - | 31,339,886 |
| P Gammell | 12,582,572 | - | - | - | - | - | - | - | - | 12,582,572 |
| D Adams | 100,000 | - | - | - | - | - | - | - | - | 100,000 |

Where personnel are no longer employed on the report date, the share movement only relates to the period up to their respective resignation dates.

**E. Bonus Remuneration**

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

***Short term incentive bonus***

| | Included in remuneration (a) £ | Maximum entitlement £ | % vested in year | % forfeited in year (b) |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| N Montarello | - | - | -% | -% |
| G Halton | 25,000 | 25,000 | 100% | -% |

(a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on the discretion of the Board pertaining to the financial year ended 30 June 2022. No amounts vest in future financial years.
(b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

**F. Key Management Personnel Transactions**

***Loans to Key Management Personnel and their related parties***
There have been no loans provided to Key Management Personnel and their related parties as at 30 June 2022 (30 June 2021: nil).

***Other Key Management Personnel transactions***
During the financial year there were no payments made to any other entities in which Key Management Personnel have significant control or influence over.

***Options and rights over equity instruments***
Options over ordinary shares in ThinkSmart issued to Key Management Personnel during the financial year are detailed in Note 19(b) and page 17 to 18 of the Remuneration Report.

End of audited Remuneration Report

**INDEMNIFICATION AND INSURANCE**

During the year ended 30 June 2022, the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. Disclosure of the total amount of the premium and the nature of the liabilities in respect of such insurance is prohibited by the policy.

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

**ENVIRONMENTAL REGULATION**

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

**NON-AUDIT SERVICES**

BDO have conducted the audit of the Company's consolidated financial statements for the financial year ended 30 June 2022. During the year BDO have not provided any services to ThinkSmart prior to conducting the audit of the financial statements for the year ended 30 June 2022, this includes any non-audit services.

Details of the amounts paid or payable and expensed to BDO in respect of audit and non-audit services provided during or in respect of the year are set out below.

| | **12 Months to 30 June 2022 £** | **12 Months to 30 June 2021 £** |
|---|---|---|
| Audit and review of consolidated financial statements | 110,297 | 124,791 |
| **Total paid or payable to Company auditors** | 110,297 | 124,791 |

**ROUNDING**

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated financial statements and the Directors' report have been rounded off to the nearest thousand pounds, unless otherwise indicated.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration which forms part of this report is included in page 22 of the financial report.

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

On behalf of the Directors

N Montarello
Chairman
Perth, Western Australia, 14 September 2022

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth WA 6000
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF THINKSMART LIMITED

As lead auditor of ThinkSmart Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ThinkSmart Limited and the entities it controlled during the period.

Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd

Perth

14 September 2022

# Directors' Declaration

1. In the opinion of the Directors of ThinkSmart Limited ('the Company'):

   (a) The consolidated financial statements, notes and disclosures are in accordance with the Corporations Act 2001, including:

      i. Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

      ii. Complying with the Australian Accounting Standards and the Corporations Regulations 2001.

   (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2022.

3. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with Australian Accounting Standards.

Signed in accordance with a resolution of the Directors:

N Montarello
Chairman
Perth, Western Australia, 14 September 2022

# Consolidated Statement of Profit & Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2022

| | Notes | 12 Months to June 2022 £,000 | 12 Months to June 2021 £,000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6(a) | 3,269 | 4,286 |
| Other revenue | 6(b) | 207 | 62 |
| **Total revenue** | | 3,476 | 4,348 |
| | | | |
| Customer acquisition cost | 6(c) | (74) | (258) |
| Cost of inertia assets sold | 6(d) | (166) | (335) |
| Other operating expenses | 6(e) | (2,704) | (3,431) |
| Depreciation and amortisation | 6(f) | (802) | (1,401) |
| Impairment (losses)/gains | 6(g) | (103) | 41 |
| (Loss)/gain on Financial Instruments | 6(h) | (93,696) | 71,267 |
| Other gains | 6(i) | - | 1,450 |
| **(Loss)/profit before tax** | | (94,069) | 71,681 |
| Income tax charge | 7 | (11) | (17) |
| **Net (loss)/profit after tax – attributable to owners of the Company** | | (94,080) | 71,664 |
| | | | |
| **Other comprehensive income/(loss)** | | | |
| **Items that may be reclassified subsequently to profit or loss, net of income tax:** | | | |
| Foreign currency translation differences for foreign operations | | (13) | (43) |
| | | | |
| *Total items that may be reclassified subsequently to profit or loss net of income tax* | | (13) | (43) |
| **Other comprehensive income/(loss) for the year, net of income tax** | | **(13)** | **(43)** |
| **Total comprehensive (loss)/income for the year attributable to owners of the Company** | | **(94,093)** | **71,621** |
| | | | |
| **Earnings per share** | | | |
| Basic Earnings per share (pence) | 27 | (88.27) | 67.28 |
| Diluted Earnings per share (pence) | 27 | (88.27) | 66.21 |

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

# Consolidated Statement of Financial Position

As at 30 June 2022

| | Notes | June 2022 £,000 | June 2021 £,000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 20(a) | 5,536 | 7,067 |
| Trade receivables | 24(c) | 17 | 55 |
| Finance lease receivables | 8 | 866 | 38 |
| Financial assets at fair value through profit or loss | 10 | 31,304 | - |
| Other current assets | 9 | 231 | 380 |
| **Total current assets** | | 37,954 | 7,540 |
| **Non-current assets** | | | |
| Finance lease receivables | 8 | 46 | - |
| Plant and equipment | 13 | 98 | 302 |
| Intangible assets | 14 | 188 | 590 |
| Financial assets at fair value through profit or loss | 10 | - | 125,000 |
| Contract assets | 11 | - | 777 |
| Other non-current assets | 12 | 3 | 2,069 |
| **Total non-current assets** | | 335 | 128,738 |
| **Total assets** | | 38,289 | 136,278 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | (1,043) | (728) |
| Lease liabilities | 17 | (46) | (103) |
| Contract liabilities | 18 | (39) | (410) |
| Provisions | 16 | (167) | (202) |
| **Total current liabilities** | | (1,295) | (1,443) |
| **Non-current liabilities** | | | |
| Lease liabilities | 17 | - | (46) |
| Contract liabilities | 18 | - | (332) |
| **Total non-current liabilities** | | - | (378) |
| **Total liabilities** | | (1,295) | (1,821) |
| **Net assets** | | **36,994** | **134,457** |
| | | | |
| **Equity** | | | |
| Issued capital | 19(a) | 7,862 | 10,413 |
| Reserves | | (2,888) | (2,875) |
| Accumulated profits | | 32,020 | 126,919 |
| **Total equity** | | **36,994** | **134,457** |

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

# Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2022

| **Consolidated** | **Fully paid ordinary shares** | **Foreign currency translation reserve** | **Accumulated Profit** | **Attributable to equity holders of the parent** |
|---|---|---|---|---|
| | **£,000** | **£,000** | **£,000** | **£,000** |
| Balance at 1 July 2020 | 13,164 | (2,832) | 56,156 | 66,488 |
| Profit for the year | - | - | 71,664 | 71,664 |
| Exchange differences arising on translation of foreign operations, net of tax | - | (43) | - | (43) |
| **Total comprehensive income for the year** | - | (43) | 71,664 | 71,621 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | |
| *Contributions by and distributions to owners of the Company* | | | | |
| Capital return paid | (2,757) | - | - | (2,757) |
| Dividends paid | - | - | (901) | (901) |
| Share options exercised | 6 | - | - | 6 |
| Balance at 30 June 2021 | 10,413 | (2,875) | 126,919 | 134,457 |
| | | | | |
| Balance at 1 July 2021 | 10,413 | (2,875) | 126,919 | 134,457 |
| Loss for the year | - | - | (94,080) | (94,080) |
| Exchange differences arising on translation of foreign operations, net of tax | - | (13) | - | (13) |
| **Total comprehensive income for the year** | - | (13) | (94,080) | (94,093) |
| **Transactions with owners of the Company, recognised directly in equity** | | | | |
| *Contributions by and distributions to owners of the Company* | | | | |
| Capital return paid | (2,559) | - | - | (2,559) |
| Dividends paid and accrued | - | - | (819) | (819) |
| Share options exercised | 8 | - | - | 8 |
| Balance at 30 June 2022 | 7,862 | (2,888) | 32,020 | 36,994 |

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

# Consolidated Statement of Cash Flows

For the Financial Year Ended 30 June 2022

| | Notes | 12 Months to June 2022 £,000 | 12 Months to June 2021 £,000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers | | 3,152 | 4,033 |
| Payments to suppliers and employees | | (2,832) | (3,796) |
| (Payments)/receipts in respect of lease receivables | | (746) | 511 |
| Interest received | | 61 | 65 |
| Interest and finance charges paid | | (10) | (92) |
| Receipts from security guarantee | | 2,021 | 35 |
| Income tax paid | | (11) | (17) |
| Other gains receipts | | - | 1,450 |
| Net cash from operating activities | 20(b) | 1,635 | 2,189 |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Payments for plant and equipment | | (41) | (17) |
| Payment for intangible assets – software & contract rights | | - | (122) |
| Net cash used in investing activities | | (41) | (139) |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Payment of lease liabilities | | (103) | (93) |
| Dividends paid | | (458) | (901) |
| Proceeds from share issue net of costs | | 8 | 6 |
| Return of capital net of costs | | (2,559) | (2,757) |
| Net cash used in financing activities | | (3,112) | (3,745) |
| | | | |
| Net decrease in cash and cash equivalents | | (1,518) | (1,695) |
| Effect of exchange rate fluctuations on cash held | | (13) | (43) |
| Cash and cash equivalents at beginning of the financial year | | 7,067 | 8,805 |
| **Total cash and cash equivalents at the end of the financial period** | 20(a) | 5,536 | 7,067 |
| Restricted cash and cash equivalents at the end of the financial period | 20(a) | (62) | (60) |
| **Net available cash and cash equivalents at the end of the financial period** | | 5,474 | 7,007 |

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

# Notes to the 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 year was the provision of lease and rental financing services in the UK and the holding of a financial asset. The address of the Company's registered office is Suite 5, 531 Hay Street Subiaco, WA 6008, Australia and further information can be found at www.thinksmartworld.com.

## 2. Basis of Preparation

### (a) Statement of compliance

The Company is listed on the Alternative Investment Market ("AIM"), a sub-market of the London Stock Exchange. The financial information has been prepared in accordance with the AIM Rules for Companies and in accordance with this basis of preparation, including the significant accounting policies set out below.

The consolidated financial statements are general purpose financial statements which have been prepared and approved by the Directors in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as International Financial Reporting Standards as adopted by the UK (''Adopted IFRSs''). The consolidated financial statements were authorised for issue by the Board of Directors on 14 September 2022.

### (b) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for 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 British Pounds ("GBP") unless otherwise noted.

### (c) Functional and presentation currency

These consolidated financial statements are presented in British Pounds, which is the Company's functional currency. The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest thousand pounds, unless otherwise stated.

### (d) Going Concern

The consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of these consolidated financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows and resources and the longer term strategy of the business. The Directors have assessed the impact of COVID-19 and the economic uncertainty associated with the conflict in Ukraine on the current and forecast position of the Group. As the Group has only been minimally impacted the Directors are satisfied that the Group has more than adequate resources to meet its liabilities as they fall due even when stressed to reasonable worst case scenarios.

## 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 year 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.

**(c) Revenue recognition**
The Group recognises revenue as follows:

*Revenue from contracts with customers*
Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a contract liability.

Some forms of revenue fall outside the scope of AASB 15 – Revenue from Contracts with Customers, of relevance to ThinkSmart this includes revenue under AASB 16 Leases and AASB 9 Financial Instruments.

Up to 31 January 2022 financing for lease products was obtained by the Group from third party funding partners. Depending on the nature of the agreements with those funders, these contracts resulted in the Group acting as a lessor or as the agent of the funder (who is then the lessor). Following the termination of the Operating Agreement with STB on 31 January 2022 the Group acts as a lessor in respect of the remaining portfolio of leases.

Where the Group is acting as the lessor it follows the treatment outlined in AASB 16. In accordance with AASB 16 nearly all 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 was acting as agent prior to the purchase of the STB lease portfolio on 31 January 2022, and where the Group continues to service leases acquired under the operating agreement, it receives the following revenue streams:

***Commission income***
This includes the upfront cash transaction fee receivable from the funder together with the non-cash consideration between the funder and the end customer (for the contract or inertia asset) which is allocated under AASB 15 between the inception/brokerage of the lease arrangement, a financial guarantee contract premium over the lease term, a contract liability reflecting the reversal constraint for the potential refund of the transaction fee, and the non-cash consideration contract asset accruing over the lease term.

***Extended rental income***
Once the contract between the funder and the end customer expires the asset becomes the property of the Group and any extended rental income is payable to the 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 arranges insurance and collects the premiums on their behalf, receiving a commission from the insurer for doing so.

***Outsourced services***
The Group generates revenue through the provision of outsourced services. The Group is a B2B provider of call centre customer services. The provision of call centre services comprise the whole and single contractual obligation and all revenue is recognised at the same time as this is fulfilled. There is no variable income attached to the services provided and all costs are expensed as incurred.

**(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. If on review the remaining useful life of any asset is found to be shorter than its useful life at recognition then the depreciation schedule is accelerated to reflect the shorter remaining useful life with any adjustment charged to depreciation cost.

**(f) Customer acquisition costs**
Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract between the funder and the end customer, for which the Group receives commission under the funder contract, and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

**(g) 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.

**(h) Financial instruments**
The financial instruments held by the Group are the financial assets and financial liabilities reflected in the statement of financial position. As at 30 June 2022 the financial instruments held by the Group comprised the holding of 618,750 shares in Block Inc (“Block”). Other assets and liabilities held by the Group excluded from financial instruments include lease contracts which are

accounted for under AASB 16, property, plant and equipment, intangible assets, prepayments, provisions, tax liabilities and investments in subsidiaries.

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

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- The Group's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

The Group measures a financial asset at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income having met the criteria specified in AASB 9 – Financial Instruments in respect of business model and cash flows that are solely payments of principal and interest.

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.

***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 statement of financial position. 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.

***Other financial assets***

Other financial assets are initially valued at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which assets are held and the contractual cash flow characteristics of the financial asset.

***(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 expected credit losses determined under AASB 9 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. Any liability remaining is derecognised in profit or loss when the guarantee is discharged, cancelled or expires.

***(iii) Impairment of assets***

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

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through profit or loss. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. For lease receivables the Group applies the simplified approach as such the loss allowance is based on the asset's lifetime expected credit losses.

For financial assets measured at fair value through other comprehensive income, gains or losses are recognised in other comprehensive income, except for impairment gains of losses and foreign exchange gains or losses, until the asset is derecognised or reclassified. In all other cases, the loss allowance in excess of amounts previously recognised is recognised in profit or loss.

*Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than 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 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 Group 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 (Group 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.

**(i) Intangible assets**

*Intellectual property*

Intellectual property is recorded at the cost of acquisition and is amortised on a straight line basis over 20 years.

*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.

**(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) 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.

**(l) 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 consolidated 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 the initial recognition of 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 year*
Current and deferred tax is recognised as an expense or income in profit or 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.

**(m) 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.

**(n) 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.

**(o) 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.

**(p) 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 rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(q) 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); and
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 10 – financial assets at fair value through profit or loss;
Note 19(b) – share based payment transactions; and
Note 24(b) – financial instruments.

**(r) Government Grants**
In the current year the Group has applied for and received government support through the UK government Coronavirus Job Retention Scheme (CJRS). The Group recognises government grants only where it is reasonably certain that the Group will comply with the conditions attached to the grant and it is reasonably likely that the grant will be received. The CJRS is designed to compensate for staff costs so the Group recognises grant funding in the period necessary to match it with the corresponding staff costs. A grant receivable as compensation for expenses already incurred is recognised when it becomes receivable. The Group presents the relevant expenses net of any grant income received (note 6(e)).

**(s) Leases where the Group acts as lessee**
The Group recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. On entering a lease contract the Group recognises a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right of use asset is measured as being equal to the value of the lease liability at the inception of the lease, plus the initial direct costs incurred and the estimated costs for restoring the property to its original condition. Depreciation on the right of use asset is charged on a straight-line basis over the ten year period of the lease. The lease liability in respect of the lease payments due to the lessor is measured at each reporting date as the present value of all future lease payments due. As the interest rate implicit in the lease is not readily determinable the discount rate of 9.14% used is the Group's incremental borrowing rate being the STB cost of funds using an estimated 10 year interest rate swap at February 2013. The only lease held by the Group which is relevant to AASB 16 is for its office space at Oakland House, Manchester.

**(t) New or amended Accounting Standards and Interpretations adopted**
The Group has adopted all of the new or amended Australian Accounting Standards that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The following Accounting Standards and Interpretations have been adopted in the annual financial statements for the year ended 30 June 2022, but have not had a material effect on the Group:

*Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16)*

These amendments to various AASB standards are mandatorily effective for reporting periods beginning on or after 1 January 2021. As the Group has no loans whose contractual terms are affected by interest benchmark reform there was no impact on the Group from the adoption of these amendments.

**(u) Accounting policies available for early adoption not yet adopted**
A number of new and revised standards issued by the AASB have not yet come into effect. Below are those which are effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for accounting periods beginning on or after 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to AASB 137);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to AASB 116);
- Insurance Contracts - In June 2020, the AASB issued amendments to AASB 17, including a deferral of its effective date to 1 January 2023;
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to AASB 1, AASB 9, AASB 16 and AASB 141); and
- References to Conceptual Framework (Amendments to AASB 3).

In January 2020, the AASB issued amendments to AASB 101, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

## 4. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Revenue from contracts with customers**

When recognising revenue in relation to the provision of services to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the service to the customer, as this is deemed to be the time that the customer obtains the benefits and control of the service.

*Principal vs agent*
Judgement is exercised in relation to certain services that the group was providing in relation to leases entered in to by an end customer with the lessor (Secure Trust Bank ("STB")) as to whether the group was acting as principal in the arrangement or as agent. Up to the Group's purchase of the STB portfolio of leases on 31 January 2022, management have determined that having regard to the contractual conditions with STB and the rights attaching to consumer contracts for the leases entered in to by the end customer with STB that the group was acting as agent and recorded commission income from STB.

*Financial guarantee contract*
Financial guarantee contracts are initially recognised at fair value and subsequently at the higher of the amount of expected credit losses determined under AASB 9 and the amount initially recognised less cumulative amortisation. The fair value of the financial guarantee is a key estimate and 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. This has been determined from historic data and forward looking estimates to determine expected default rates. This fair value determines a financial guarantee premium which is recognised as revenue over the term of the lease between the end customer and STB. The financial guarantee contract with STB was terminated on 31 January 2022.

*Determination of variable consideration*
Up to 31 January 2022 judgement was exercised in estimating variable consideration which was determined having regard to past experience with respect to the expected default rates where the customer (STB) had the right to clawback from the Group's commission income any amount of default on lease payments due from the end customer under the financial guarantee contract. Revenue in respect of this amount of commission income was only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. On termination of the STB Operating Agreement it became highly probable that a reversal of any commission income recognised under the contract will not occur.

*Contract right income*

A contract asset was recognised where the Group acted as agent for the lessor (STB) during an end customer's minimum lease term with STB and the Group have a contractual right to an inertia asset at the end of this minimum lease term. Contract assets were recognised as revenue accruing over the minimum lease term up to the fair value of the inertia asset at the end of that minimum lease term. The fair value is determined based on available market data regarding expected returns for a similar risk asset and discounted using a credit risk rate. On termination of the STB Operating Agreement and purchase of the STB portfolio of leases the Group derecognised the accrued contract right income and recognised a finance lease receivable, including residual value, in respect of the portfolio of leases acquired.

**Estimation of useful lives of assets**

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**A. Judgements**

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 6 - commission income: whether the Group acts as an agent in the transaction rather than as principal; and
Note 8 - leases: whether an arrangement contains a finance lease.

**B. Assumptions and estimation uncertainties**

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 3(c) - Determination of consideration of separate performance obligation; and
Note 19(b) - measurement of share-based payments.

**Fair Value of Investments**

The Group's holding of 618,750 shares in Block is a Level 1 financial instrument with the publicly available share price giving a transparent and reliable fair value.

## 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; and
- 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 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 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 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.

Up to 31 January 2022 the trading subsidiaries had an obligation to meet the cost of future bad debts incurred by its funders. The funder deposits discussed below represented security for that credit exposure. Following the purchase of the portfolio of leases from STB on 31 January 2022 all leases are self-funded by the Group. Further information is provided in Note 24(c).

To manage credit risk in relation to the origination of leases, there was a credit assessment and fraud minimisation process delivered through its patented SmartCheck system. The credit underwriting system used 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 Chief Financial Officer and Financial Controller monitor ongoing credit performance on different cohorts of customer contracts. In addition there exists a specialist collections function to manage any delinquent accounts.

**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.

**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's exposure to foreign currency risk is limited to the cash balances held by the Australian parent ThinkSmart denominated in Australian Dollars.

**Interest rate risk**

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 management and the Board.

**Operational risk**

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

The 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.

**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 it achieves this objective.
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. At the AGM on 10 November 2021 shareholders approved a return of capital of AUD $5,595,008 to shareholders (the 'Distribution') in two parts:

1. a capital reduction, pursuant to which the Company will return 4.4618 cents per share (or depositary interest) to shareholders (or depositary interest holders) ('Return of Capital'); and

2. a special unfranked dividend of 0.7874 cents per ordinary share (or depositary interest) - declared as attaching conduit foreign income ('Dividend').

The return of capital and dividend had a record date of 10 November 2021 and were paid on 9 December 2021.

At the GM on 29 June 2022 shareholders approved a return of capital of AUD $4,412,523 to shareholders (the 'Distribution') in two parts:

1. a capital reduction, pursuant to which the Company will return 3.5188 cents per share (or depositary interest) to shareholders (or depositary interest holders) ('Return of Capital'); and

2. a special unfranked dividend of 0.6210 cents per ordinary share (or depositary interest) ('Dividend').

The return of capital and dividend had a record date of 1 July 2022 and were paid on 15 July 2022. Having been approved by shareholders on 29 June 2022 the dividend has been accrued in the financial statements for the year ending 30 June 2022.

## 6. Consolidated Statement of Profit and Loss

| | 12 Months to 30 June 2022 £,000 | 12 Months to 30 June 2021 £,000 |
|---|---|---|
| Profit is arrived at after crediting/(charging) the following items: | | |
| **(a) Revenue** | | |
| Commission income | 594 | 851 |
| Extended rental income | 1,284 | 1,566 |
| Income earned from sale of inertia equipment | 396 | 698 |
| Outsourced services | 843 | 863 |
| Services revenue – insurance commission | 82 | 226 |
| Interest revenue – other entities | 61 | 65 |
| Fee revenue – customers | 9 | 17 |
| | 3,269 | 4,286 |
| **(b) Other revenue** | | |
| Finance lease income | 207 | 62 |
| | 207 | 62 |
| **Total revenue** | 3,476 | 4,348 |
| *All revenue is generated in the UK from the following products:* | | |
| SmartPlan | 2,496 | 3,205 |
| Upgrade Anytime | 69 | 147 |
| Flexible Leasing | 9 | 68 |
| Other/non-product specific | 902 | 928 |
| | 3,476 | 4,348 |

**(c) Customer acquisition costs**

Customer acquisition costs relate to commissions paid to our retail partners together with sales and marketing expenses incurred during the promotion of finance contracts to existing customers.

**(d) Cost of inertia assets sold**

Cost of inertia assets sold is the write-off of inertia assets, including that transferred from PPE Operating Lease assets when the end customer terminates their lease agreement during secondary period, upon sale of inertia equipment.

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| **(e) Other operating expenses** | | |
| Employee benefits expense: | | |
| - Payments to employees (i) | (1,448) | (1,725) |
| - Employee superannuation costs | (111) | (109) |
| | (1,559) | (1,834) |
| Occupancy costs | (174) | (171) |
| Lease interest charge | (10) | (19) |
| Professional services | (552) | (758) |
| Finance charges | (10) | (92) |
| Losses arising from financial guarantee contract | (14) | (104) |
| Other costs | (385) | (453) |
| | (2,704) | (3,431) |

(i) Payments to employees are presented net of government grants received through the UK government CJRS. In the year the Group received payments of £478 (FY21: £30,629).

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| **(f) Depreciation and amortisation** | | |
| Depreciation | (400) | (437) |
| Amortisation | (402) | (964) |
| | (802) | (1,401) |
| **(g) Impairment (losses)/gains** | | |
| Impairment gains/(losses) finance leases and receivables | 13 | (16) |
| Movement in provision for expected credit losses | (116) | 57 |
| | (103) | 41 |
| **(h) Fair value (losses)/gains on financial instruments** | | |
| Fair value (loss)/gain | (93,696) | 71,267 |
| | (93,696) | 71,267 |

In the year to 30 June 2022 fair value losses arose from the Group's investment in 10% of Clearpay Finance Limited ("Cleapay"). On 14 January 2022 the Group exchanged its 10% holding in Clearpay for 1,650,000 shares in Afterpay Limited ("Afterpay"). The shares in Afterpay were subsequently exchanged for 618,750 shares in Block on 1 February 2022 as a result of the acquisition of Afterpay by Block.

In the year to 30 June 2021 fair value gains arose from the revaluation of the Group's investment in 10% of Clearpay (see note 10.

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| **(i) Other gains** | | |
| Fair value gain on financial asset through profit and loss | - | 1,450 |
| | - | 1,450 |

In the year to 30 June 2021 other gains arose on the settlement of legal claims against Dixons as announced on 10 August 2020.

## 7. Income Tax

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| **Amounts recognised in profit and loss** | | |
| The major components of income tax expense are: | | |
| Current income tax expense | (11) | (17) |
| Total income tax expense | (11) | (17) |

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:

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Accounting (loss)/profit before tax | (94,069) | 71,681 |
| At the statutory income tax rate of 30% | 28,221 | (21,504) |
| Effect of tax rates in foreign jurisdictions | (10,348) | 7,885 |
| Non-deductible expenses | (1) | (3) |
| Non-deductible (loss)/non-taxable gain | (18,716) | 13,541 |
| Reversal of unrecognised deferred tax asset | 844 | 81 |
| Irrecoverable withholding tax | (11) | (17) |
| Income tax charge | (11) | (17) |
| **Tax receivable/(payable)** | | |
| Current | - | - |

The current tax asset/(liability) is recognised for income tax receivable/(payable) in respect of all periods to date. The Group has an unrecognised deferred tax asset of £0.1m at 30 June 2022 (30 June 2021: £1.1m) being mainly in respect of the estimated £0.2m (30 June 2021: £4.4m) of tax losses carried forward at the substantively enacted UK corporation tax rate of 25% (30 June 2021: 25%).

**8. Finance lease receivables**

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| **Current** | | |
| Gross investment in finance lease receivables | 664 | 29 |
| Unguaranteed residuals | 522 | 24 |
| Unearned future finance lease income | (202) | (6) |
| Net lease receivable | 984 | 47 |
| Allowance for expected credit losses | (118) | (9) |
| | 866 | 38 |
| **Non-Current** | | |
| Gross investment in finance lease receivables | 35 | - |
| Unguaranteed residuals | 27 | - |
| Unearned future finance lease income | (10) | - |
| Net lease receivable | 52 | - |
| Allowance for expected credit losses | (6) | - |
| | 46 | - |

| | | |
|---|---|---|
| Balance at 1 July | 38 | 446 |
| Additions | 1,516 | - |
| Receipts in respect of lease receivable | (746) | (511) |
| Finance lease income | 207 | 62 |
| Impairment (loss)/gain | (103) | 41 |
| | 912 | 38 |

All finance leases detailed above have a minimum lease term of 2 years, see note 3(h)(i) for further information on the accounting policy for these finance leases and note 5 for further information on financial risk management. See note 24(c) for detailed analysis of the ageing of lease receivables and expected credit losses recognised.

**9. Other Current Assets**

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Prepayments | 176 | 222 |
| Insurance prepayments | - | 4 |
| Accrued income - insurance commission (see Note 12(i)) | 55 | 154 |
| Sundry debtors | - | - |
| | 231 | 380 |

**10. Financial assets at fair value through profit or loss**

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Investment in Clearpay Finance Limited | - | 125,000 |
| Investment in Block Inc | 31,304 | - |
| | 31,304 | 125,000 |

On 23 August 2018 the Group sold 90% of Clearpay to Afterpay. The Group retained a 10% shareholding in Clearpay which was held as an investment at fair value through profit or loss under AASB 9. The investment in Clearpay was a level 3 financial instrument.

The Group engaged a third party global professional services firm to value its retained shareholding in Clearpay at 30 June 2021 for accounting purposes under AASB 9 in accordance with AASB 13 (Fair Value Measurement). On 14 January 2022 Shareholders approved the sale of the 10% shareholding in Clearpay in exchange for 1,650,000 shares in Afterpay. In August 2021 Block previously known as Square Inc ("Square") and Afterpay announced the intention for Block to acquire Afterpay in a deal which valued Afterpay at US$29 billion (AU$39 billion). On 1 February 2022 Block completed the acquisition of Afterpay resulting in the 1,650,000 Afterpay shares held by the Group being exchanged for 618,750 shares in Block. Block is listed on the New York Stock Exchange ("NYSE") and the Group's shareholding is a level 1 financial instrument. At 30 June 2022 Block's share price was USD $61.46 per share.

**11. Contract assets**

| | **30 June 2022 £,000** | **30 June 2021 £,000** |
|---|---|---|
| Balance at 1 July | 777 | 1,430 |
| Recognised as revenue in period (i) | 221 | 370 |
| Recognised as customer acquisition cost (ii) | (169) | (110) |
| Transferred to Plant & Equipment Operating lease additions | (338) | (913) |
| Disposals (iii) | (491) | - |
| | - | 777 |
| Contract asset revenue to be recognised less than 1 year | - | 215 |
| Contract asset revenue to be recognised between 1 and 2 years | - | 71 |
| Contract asset revenue to be recognised between 2 and 3 years | - | 10 |
| Contract asset revenue to be recognised between 3 and 4 years | - | - |
| | - | 296 |

i) A contract asset is recognised where the Group act as agent for the lessor (STB) during the minimum lease term and have a contractual right to the inertia asset at the end of the minimum lease term. Contract assets are recognised as revenue accruing over the minimum lease term building up inertia asset (non-cash consideration) over the minimum lease term.

ii) Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract between the funder and the end customer, for which the Group receives commission under the funder contract, and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

iii) On 31 January 2022 the Group terminated the Operating Agreement with STB including the transfer of the related lease portfolio to the Group. On completion of the termination the contractual conditions giving rise to the Contract Assets ceased to exist and the balance of these assets were de-recognised by the Group.

**12. Other Non-Current Assets**

| | **30 June 2022 £,000** | **30 June 2021 £,000** |
|---|---|---|
| Accrued income - insurance commission (i) | 3 | 48 |
| Deposits held by funders (ii) | - | 2,021 |
| | 3 | 2,069 |

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

(ii) Up to 31 January 2022 deposits held by funders for the servicing and management of their portfolios in the event of default. On 8 February 2022, following termination of the Operating Agreement the deposits were repaid to the Group net of consideration for the purchase of the STB lease portfolio.

## 13. Plant and Equipment

| | Plant & Equipment (UK) £,000 | Office Lease Right of Use Asset £,000 | Plant & Equipment Operating Lease £,000 | Total £,000 |
|---|---|---|---|---|
| **Gross Carrying Amount** | | | | |
| **Cost or deemed cost** | | | | |
| Balance at 30 June 2020 | 152 | 690 | 360 | 1,202 |
| Transferred from contract assets | - | - | 917 | 917 |
| Transferred to cost of inertia assets sold | - | - | (655) | (655) |
| Additions | 17 | - | - | 17 |
| Disposals | (78) | - | (339) | (417) |
| Balance at 30 June 2021 | 91 | 690 | 283 | 1,064 |
| Transferred from contract assets | - | - | 339 | 339 |
| Transferred to cost of inertia assets sold | - | - | - | - |
| Additions | 41 | - | - | 41 |
| Disposals | (49) | - | (567) | (616) |
| Balance at 30 June 2022 | 83 | 690 | 55 | 828 |
| | | | | |
| **Accumulated Depreciation** | | | | |
| Balance at 30 June 2020 | (102) | (506) | (134) | (742) |
| Depreciation expense | (35) | (69) | (333) | (437) |
| Disposals | 78 | - | 339 | 417 |
| Balance at 30 June 2021 | (59) | (575) | (128) | (762) |
| Depreciation expense | (33) | (69) | (298) | (400) |
| Disposals | 49 | - | 383 | 432 |
| Balance at 30 June 2022 | (43) | (644) | (43) | (730) |
| | | | | |
| **Net Book Value** | | | | |
| At 30 June 2021 | 32 | 115 | 155 | 302 |
| At 30 June 2022 | 40 | 46 | 12 | 98 |

**14. Intangible Assets**

| | Contract rights £,000 | Software £,000 | Intellectual Property £,000 | Total £,000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| **At cost** | | | | |
| Balance at 30 June 2020 | 441 | 4,369 | 359 | 5,169 |
| Effect of movement in exchange rate | - | - | (11) | (11) |
| Additions | 8 | 115 | - | 123 |
| Disposals | (41) | (2,755) | - | (2,796) |
| Balance at 30 June 2021 | 408 | 1,729 | 348 | 2,485 |
| Disposals | (15) | (1,152) | - | (1,167) |
| Balance at 30 June 2022 | 393 | 577 | 348 | 1,318 |

| | Contract rights £,000 | Software £,000 | Intellectual Property £,000 | Total £,000 |
|---|---|---|---|---|
| **Accumulated amortisation and impairment** | | | | |
| Balance at 30 June 2020 | (75) | (3,303) | (358) | (3,736) |
| Effect of movement in exchange rate | - | - | 9 | 9 |
| Amortisation expense | (139) | (826) | 1 | (964) |
| Disposals | 41 | 2,755 | - | 2,796 |
| Balance at 30 June 2021 | (173) | (1,374) | (348) | (1,895) |
| Amortisation expense | (142) | (260) | - | (402) |
| Disposals | 15 | 1,152 | - | 1,167 |
| Balance at 30 June 2022 | (300) | (482) | (348) | (1,130) |
| | | | | |
| **Net book value** | | | | |
| At 30 June 2021 | 235 | 355 | - | 590 |
| At 30 June 2022 | 93 | 95 | - | 188 |

## 15. Interest in Subsidiaries

| Interest in Subsidiaries | Country of Incorporation | % of Equity 30 June 2022 | % of Equity 30 June 2021 |
|---|---|---|---|
| RentSmart Limited | UK | 100 | 100 |
| ThinkSmart Insurance Services Administration Ltd | UK | 100 | 100 |
| ThinkSmart Financial Services Ltd | UK | 100 | 100 |
| ThinkSmart Europe Ltd | UK | 100 | 100 |
| ThinkSmart UK Ltd | UK | 100 | 100 |
| ThinkSmart Finance Group Ltd | UK | 100 | 100 |
| ThinkSmart Employee Share Trust | Australia | 100 | 100 |
| ThinkSmart LTI Pty Limited | Australia | 100 | 100 |

## 16. Trade and Other Payables, and Provisions

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Trade and other payables | 161 | 79 |
| GST/VAT Payable | 135 | 132 |
| Accrued dividend payable | 361 | - |
| Other accrued expenses | 386 | 517 |
| | 1,043 | 728 |
| **Provisions** | | |
| Annual leave | 70 | 111 |
| Long service leave | 93 | 86 |
| Risk Transfer cancellation and claims | 4 | 5 |
| | 167 | 202 |
| **Annual and long service leave** | | |
| Balance at 1 July | 197 | 245 |
| Effect of exchange rate movement | 9 | (7) |
| Additional provisions made in the year | 3 | 3 |
| Amounts used during the year | (46) | (44) |
| Balance at 30 June | 163 | 197 |
| **Risk Transfer cancellation and claims** | | |
| Balance at 1 July | 5 | 10 |
| Additional provisions made in the year | - | - |
| Amounts used during the year | (1) | (5) |
| Balance at 30 June | 4 | 5 |

## 17. Lease liabilities

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Balance brought forward | 149 | 242 |
| Rental paid in period | (113) | (112) |
| Interest charged | 10 | 19 |
| | 46 | 149 |

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Lease liabilities due within 12 months | 46 | 103 |
| Lease liabilities due greater than 12 months | - | 46 |
| | 46 | 149 |
| **Undiscounted maturity analysis** | | |
| Lease liabilities due up to 1 year | 47 | 113 |
| Lease liabilities due between 1 and 2 years | - | 47 |
| Lease liabilities due between 3 and 5 years | - | - |
| Lease liabilities due over 5 years | - | - |
| | 47 | 160 |

## 18. Contract liabilities

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| Balance brought forward | 742 | 1,327 |
| Recognised as revenue in period | (703) | (585) |
| | 39 | 742 |
| Contract liabilities to be recognised as revenue within 12 months | 39 | 410 |
| Contract liabilities to be recognised as revenue greater than 12 months | - | 332 |
| | 39 | 742 |

## 19. Issued Capital and reserves

### (a) Issued and paid up capital

| | 30 June 2022 £,000 | 30 June 2021 £,000 |
|---|---|---|
| 106,587,814 Ordinary Shares fully paid (2021: 106,542,814) | 7,862 | 10,413 |

| | 2022 Number | 2022 £000 | 2021 Number | 2021 £000 |
|---|---|---|---|---|
| *Fully Paid Ordinary Shares* | | | | |
| Balance at beginning of the financial year | 106,542,814 | 10,413 | 106,509,994 | 13,164 |
| Issue of ordinary shares | 45,000 | 8 | 32,820 | 6 |
| Return of capital to shareholders | - | (2,559) | - | (2,757) |
| Balance at end of the financial period | 106,587,814 | 7,862 | 106,542,814 | 10,413 |

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.
At the AGM on 10 November 2021 shareholders approved a return of capital to shareholders. The return of capital had a record date of 12 November 2021 and was paid on 8 December 2021. The following return of capital was paid by the Group for the year:

| | **12 months to 30 June 2022 £,000** | **12 months to 30 June 2021 £,000** |
|---|---|---|
| 2.40 pence per ordinary share (2021: 2.59) | 2,559 | 2,757 |
| | 2,559 | 2,757 |

**(b) Share options – employee options**
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. The options carry neither rights to dividends nor voting rights.

Options issued in previous years and vested but not yet exercised as at 30 June 2022:

1,679,532 options over ordinary shares were issued 21 December 2016 and exercisable at £0.1508, vested and exercisable on 21 December 2019 until 21 December 2026. The fair value of these options at grant date was £0.0371. The value of these options has been expensed over the vesting period in accordance with AASB 2.

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

| | **Year ended 30 June 2022** | | **Year ended 30 June 2021** | |
|---|---|---|---|---|
| | **Number of options/loan funded shares** | **Weighted average exercise price £** | **Number of options/loan funded shares** | **Weighted average exercise price £** |
| Balance at beginning of the financial year | 1,724,532 | 0.1745 | 1,757,352 | 0.2200 |
| Exercised during the financial year | (45,000) | 0.1745 | (32,820) | 0.1745 |
| Balance at the end of financial year | 1,679,532 | 0.1508 | 1,724,532 | 0.1745 |
| Exercisable at end of the financial year | 1,679,532 | 0.1508 | 1,724,532 | 0.1745 |

The options and loan-funded shares outstanding at 30 June 2022 have an exercise price of £0.1508 (30 June 2021: £0.1745) and a weighted average contractual life of 4 years (30 June 2021: 5 years).

**(c) Dividends**
The following dividends were declared and paid by the Group for the year:

| | **12 months to 30 June 2022 £,000** | **12 months to 30 June 2021 £,000** |
|---|---|---|
| 0.43 pence per ordinary share (2021: 0.85) paid in year | 458 | 901 |
| 0.34 pence per ordinary share declared on 29 June 2022 and paid on 15 July 2022 | 361 | - |
| | 819 | 901 |

**(d) Nature and purpose of reserves**
The Group's reserves are as stated in the consolidated statement of changes in equity and represent the following:

*Accumulated profit*
Cumulative profit and loss net of distributions to owners.

*Foreign currency translation reserve*
The cumulative effect of movements in foreign exchange rates on the translation of Group entities with a functional currency other than the Group's presentation currency. These amounts are recognised in other comprehensive income.

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

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

| | **as at 30 June 2022 £,000** | **as at 30 June 2021 £,000** |
|---|---|---|
| **Reconciliation of cash and cash equivalents** | | |
| Cash balance comprises: | | |
| - Available cash and cash equivalents | 5,474 | 7,007 |
| - Restricted cash | 62 | 60 |
| | 5,536 | 7,067 |

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 24.

(b) Reconciliation of the profit for the year to net cash flows from operating activities:

| | **12 months to 30 June 2022 £,000** | **12 months to 30 June 2021 £,000** |
|---|---|---|
| **(Loss)/Profit after tax** | **(94,080)** | **71,664** |
| Add back non-cash and non-operating items: | | |
| Depreciation | 400 | 437 |
| Amortisation | 402 | 964 |
| Impairment losses on finance lease receivables | 115 | (57) |
| Lease interest | 10 | 19 |
| Loss/(Gain) on Financial Instruments | 93,696 | (71,267) |
| Cost of inertia assets sold | 184 | 655 |
| **(Increase)/decrease in assets:** | | |
| Trade receivables, deposits held with funders and other movements in lease assets | 2,253 | 654 |
| Finance lease receivable | (989) | 465 |
| Contract asset recognised to revenue | 439 | (264) |
| **Increase/(decrease) in liabilities:** | | |
| Trade and other creditors | (57) | (466) |
| Contract liabilities | (703) | (585) |
| Other interest bearing liabilities | - | 23 |
| Provisions | (35) | (53) |
| **Net cash from operating activities** | **1,635** | **2,189** |

## 21. 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. 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; and
- ThinkSmart UK Ltd.

Corporate and unallocated:
- ThinkSmart Limited.

**Operating Segments**
**Information about reportable segments**

| | UK | | Corporate and unallocated | | Total | |
|---|---|---|---|---|---|---|
| **For the year ended:** | **June 2022** | **June 2021** | **June 2022** | **June 2021** | **June 2022** | **June 2021** |
| | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** |
| Revenue | 3,269 | 4,286 | - | - | **3,269** | **4,286** |
| Other revenue | 206 | 61 | 1 | 1 | **207** | **62** |
| **Total revenue** | **3,475** | **4,347** | **1** | **1** | **3,476** | **4,348** |
| Customer acquisition cost | (74) | **(258)** | - | - | **(74)** | **(258)** |
| Cost of inertia assets sold | (166) | **(335)** | - | - | **(166)** | **(335)** |
| Other operating expenses | (2,034) | **(2,782)** | (670) | (649) | **(2,704)** | **(3,431)** |
| Depreciation and amortisation | (802) | **(1,401)** | - | - | **(802)** | **(1,401)** |
| Impairment (losses)/gains | (103) | **41** | - | - | **(103)** | **41** |
| (Loss)/gain on Financial Instruments | (59,762) | **71,267** | (33,934) | - | **(93,696)** | **71,267** |
| Other gains | - | **1,450** | - | - | **-** | **1,450** |
| **Reportable segment profit/(loss) before income tax** | **(59,466)** | **72,329** | **(34,603)** | **(648)** | **(94,069)** | **71,681** |
| Reportable segment current assets | 3,760 | 4,181 | 34,194 | 3,359 | 37,954 | 7,540 |
| Reportable segment non-current assets | 335 | 128,738 | - | - | 335 | 128,738 |
| Reportable segment liabilities | 651 | 1,575 | 644 | 246 | 1,295 | 1,821 |
| Capital expenditure | 41 | 139 | - | - | 41 | 139 |

## 22. Remuneration of Auditor

| | 12 Months to June 2022 £ | 12 Months to June 2021 £ |
|---|---|---|
| **Audit and review services:** | | |
| *Auditor of the Company:* | | |
| Provided by BDO | 110,297 | 124,791 |
| Audit and review of financial statements | 110,297 | 124,791 |

The Group's auditors are BDO.

## 23. Commitments and Contingent Liabilities

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Leases where Group acts as agent (not included in the statement of financial position) | - | 2,583 |
| Deposits held by funder | - | 2,021 |

Under the terms of the UK operating agreement with STB where STB is the lessor, the Group was obliged to purchase delinquent leases (contracts in arrears for 91 days) from the funder at the funded amount. The Group entered into a financial guarantee contract with STB for which the Group provided a deposit to support future delinquent leases. Both the UK operating agreement and the financial guarantee contract were terminated on 31 January 2022 at which time the Group ceased to have any contingent liabilities.

The deposit held by funders was recognised in the prior year as an asset on the Group's statement of financial position within other non-current assets (see note 12).

## 24. Financial Instruments

### (a) Interest rate risk

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

| | Carrying amount | |
|---|---|---|
| | June 2022 £,000 | June 2021 £,000 |
| **Variable rate instruments** | | |
| Cash and cash equivalents (note 20a) | 5,536 | 7,067 |
| Deposits held by funder (note 12) | - | 2,021 |
| Net financial assets | 5,536 | 9,088 |

*Sensitivity analysis*

A change in 1% in interest rates would have increased or decreased the Group's profit for continuing operations by the amounts shown below. This analysis assumes that all other factors remain constant including foreign currency rates.

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Effect of 1% increase in rates | 55 | 91 |
| Effect of 1% decrease in rates | (55) | (91) |

**(b) Market risk**
At the reporting date the profile of the Group's financial instruments with a pubic share price and stock exchange listing were:

| | Carrying amount | |
|---|---|---|
| | **June 2022** | **June 2021** |
| | **£,000** | **£,000** |
| Financial assets at fair value through profit or loss | 31,304 | - |
| Net financial assets | 31,304 | - |

*Sensitivity analysis*
A change in 1% in market prices would have increased or decreased the Group's profit for continuing operations by the amounts shown below. This analysis assumes that all other factors remain constant including foreign currency rates.

| | **June 2022** | **June 2021** |
|---|---|---|
| | **£,000** | **£,000** |
| Effect of 1% increase in market prices | 313 | - |
| Effect of 1% decrease in market prices | (313) | - |

**(c) 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 in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
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 financial assets and liabilities are measured at amortised cost. At 30 June 2022 the Group held the following financial instruments measured at fair value through profit or loss:

- 618,750 shares in Block with a fair value of £31,304,066 (2021: £nil). The holding in Block is a Level 1 financial instrument.

At 30 June 2021 (prior year) the Group held a 10% shareholding in Clearpay which was held as an investment at fair value through profit or loss with a fair value of £125,000,000. In the year the 10% shareholding in Clearpay was disposed, see note 10. The holding in Clearpay was a Level 3 financial instrument.

**(d) 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:

| | | **June 2022** | **June 2021** |
|---|---|---|---|
| | **Note** | **£,000** | **£,000** |
| Cash and cash equivalents | 20(a) | 5,536 | 7,067 |
| Trade receivables | | 17 | 55 |
| Loan and lease receivable (current) | 8 | 866 | 38 |
| Loan and lease receivable (non-current) | 8 | 46 | - |
| Insurance prepayment and accrued income (current) | 9 | 55 | 158 |
| Insurance prepayment and accrued income (non-current) | 12 | 3 | 48 |
| Deposits held by funders | 12 | - | 2,021 |
| | | 6,523 | 9,387 |

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

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Australia | 3,825 | 3,278 |
| UK | 2,698 | 6,109 |
| | 6,523 | 9,387 |

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

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Banks (i) | 5,536 | 7,067 |
| Funders (ii) | - | 2,021 |
| Insurance partners (iii) | 58 | 206 |
| Retail customers (iv) | 912 | 38 |
| Others | 17 | 55 |
| | 6,523 | 9,387 |

(i) Cash and cash equivalents are held with banks with S&P ratings of A and AA-.

(ii) Deposits held with banks with S&P ratings of A and AA-.

(iii) In the current financial reporting period, 100% (prior year: 100%) of the prepayment relates to RentSmart Limited's (UK) 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. Allianz holds an AA rating with S&P Insurer Financial Strength and Counterparty Credit Rating.

(iv) Retail customers are assessed for creditworthiness against a bespoke credit scorecard based on information drawn from a selection of industry sources.

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

| | Gross June 2022 £,000 | Impairment June 2022 £,000 | Gross June 2021 £,000 | Impairment June 2021 £,000 |
|---|---|---|---|---|
| Not past due | 988 | 76 | 66 | - |
| Past due 0-30 days | 38 | 24 | 19 | - |
| Past due 31-120 days | 21 | 18 | 10 | 8 |
| Past due 121-365 days | 16 | 16 | 17 | 11 |
| | 1,063 | 134 | 112 | 19 |

Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

The Group applies the simplified approach to providing for expected credit losses (ECLs) under AASB 9, which permits the use of the lifetime expected loss provision for trade and lease receivables. The Group makes specific provisions for lifetime expected credit losses against these receivables where additional information is known regarding the recoverability of those balances. For the remaining trade and lease receivables balances, the Group has established an ECL model using provision matrices for recognising ECLs on its trade receivables, based on its historical credit loss experience over a two year period, adjusted (where appropriate) for forward-looking factors.

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

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Balance at 1 July | 19 | 79 |
| Impairment loss recognised | 135 | (44) |
| Bad debt written off | (20) | (16) |
| Balance at 30 June | 134 | 19 |

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, adjusted (where appropriate) for forwards looking factors.

**(e) 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 and the financial assets listed on the NYSE and denominated in US Dollars:

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Cash and cash equivalents | 2,832 | 3,277 |
| 10% strengthening of AUD | (283) | (328) |
| 10% weakening of AUD | 283 | 328 |

| | June 2022 | June 2021 |
|---|---|---|
| AUD/GBP year end exchange rate | 0.5671 | 0.5429 |

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Financial assets listed on NYSE | 31,304 | - |
| 10% strengthening of USD | (3,130) | - |
| 10% weakening of USD | 3,130 | - |

| | June 2022 | June 2021 |
|---|---|---|
| USD/GBP year end exchange rate | 0.8232 | 0.7221 |

**(f) Liquidity risk management**

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

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Trade and other payables | 563 | 728 |
| Lease liabilities | 46 | 149 |
| | 609 | 877 |
| | | |
| Less than 1 year | 609 | 831 |
| 1-2 years | - | 46 |
| | 609 | 877 |

## 25. Related Party Disclosures

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

Executive Chairman
N Montarello

Executive Directors
G Halton (Chief Financial Officer)

Non-Executive Directors
P Gammell
D Adams

The Key Management Personnel remuneration included in 'employee benefits expense' in Note 6(e) is as follows:

| | 12 months to June 2022 £ | 12 months to June 2021 £ |
|---|---|---|
| Short-term employee benefits | 404,080 | 414,690 |
| Post-employment benefits | 15,188 | 14,403 |
| Other long-term benefits | 2,909 | 2,958 |
| | 422,177 | 432,051 |
| Business expenses incurred by KMP's and reimbursed by the Company | - | - |

## 26. Subsequent Events

**Scheme Implementation Deed**
On 29 July 2022 the Company announced that it has entered into a binding Scheme Implementation Deed with Tuscan Equity Pty Ltd ("Tuscan Equity") under which Tuscan Equity would acquire the entire issued share capital of ThinkSmart pursuant to a scheme of arrangement under the Australian Corporations Act 2001 (Cth) ("the Scheme").

Tuscan Equity is a company limited by shares that was incorporated in Australia for the purposes of the Scheme and is wholly owned and controlled by Ned Montarello, ThinkSmart's Executive Chairman, CEO, founder and current 29.4% shareholder (29.94% on a fully diluted basis including all vested but currently unexercised share options). As such, an Independent Board Committee ("IBC"), comprising all of the directors of ThinkSmart other than Mr Montarello, was established to consider the proposal for the Scheme on behalf of ThinkSmart.

Under the Scheme, Tuscan Equity will acquire 100% of ThinkSmart's issued shares, including the shares owned and/or controlled by Mr Montarello. In exchange, ThinkSmart shareholders, other than Mr Montarello and entities he controls ("ThinkSmart Independent Shareholders"), will be entitled to receive cash consideration equal to the proceeds realised from the post-Scheme implementation sale on the New York Stock Exchange ("NYSE") of the proportion of the 618,750 shares in Block Inc ("Block") held by ThinkSmart attributable to their shareholding in ThinkSmart (net of their proportion of sale fees, which are expected to be approximately 0.5% of the gross proceeds from the sale of the Block shares held by ThinkSmart and after conversion into Pounds Sterling or Australian dollars (as applicable)).

Under the Scheme, Tuscan Equity will also acquire all of the ThinkSmart shares held by Mr Montarello and entities he controls in exchange for shares in Tuscan Equity, or if Mr Montarello so elects, part or all of Mr Montarello's shares in ThinkSmart may be acquired by Tuscan Equity for cash consideration, in which case he will receive the same cash consideration as the ThinkSmart Independent Shareholders funded by a proportionate increase in the number of Block shares that will be sold by ThinkSmart post-Scheme implementation.

The cash consideration to be paid under the Scheme will be determined shortly following implementation of the Scheme when the relevant number of Block shares owned by ThinkSmart are sold on the NYSE. The number of Block shares sold will be that percentage of ThinkSmart's 618,750 Block shares that is equal to the percentage of shares in ThinkSmart held by ThinkSmart Independent

Shareholders together with any shares Mr Montarello elects to sell to Tuscan Equity for cash consideration, rounded to the nearest whole number of Block shares.

The actual cash consideration received by ThinkSmart Independent Shareholders for their ThinkSmart shares (and Mr Montarello for any ThinkSmart shares he owns or controls and which he elects to sell to Tuscan Equity for cash consideration) will be determined based on the actual sale price achieved for the relevant number of Block shares sold by ThinkSmart on the day they are sold (net of sale fees and after currency conversion) and will therefore not be known until after the Scheme has been implemented. By way of example, the Block closing share price on the NYSE on 21 July 2022 was US$74.76. If the Block shares were sold for US$74.76 per share and the sale fees equated to 0.5% of the proceeds, ThinkSmart shareholders who receive the Scheme consideration in Pounds Sterling (being holders of depositary interests and holders of ThinkSmart shares who elect to receive Pounds Sterling) would receive approximately 36.01 pence per ThinkSmart share (assuming 1.1992 USD: 1 GBP). This compares to the ThinkSmart closing share price on AIM on 21 July 2022 of 25.00 pence and would represent a 44.0% premium to that closing price of ThinkSmart shares.

Holders of ThinkSmart Depositary Interests will be paid the Scheme consideration in Pounds Sterling, while holders of ThinkSmart shares who do not hold via Depositary Interests will receive the Scheme consideration in Australian dollars but can make an election to receive Pounds Sterling.

Holders of the 1,679,532 ThinkSmart employee share options, which include Mr Montarello, Mr Halton and another member of ThinkSmart's executive team, will be able to exercise their options prior to the Scheme taking effect (these options all being currently vested and free of any conditions to their exercise). Any shares issued on exercise of share options will also be acquired by Tuscan Equity under the Scheme.

Following implementation of the Scheme, ThinkSmart will be controlled by Mr Montarello. Following the subsequent payment of the Scheme consideration by Tuscan Equity to satisfy its obligations under the Scheme, Tuscan Equity, via its 100 % ownership of ThinkSmart, will hold the remainder of the Block shares that are not sold, as well as ThinkSmart's remaining business operations which comprise ThinkSmart's legacy leasing business, which is undergoing a managed wind down, and the provision of an outsourced call centre customer support service to support the Clearpay business that was previously owned by ThinkSmart.

The implementation of the Scheme is subject to shareholder, regulatory and Court approval.

**Shareholder return**

At the General Meeting held on 29 June 2022 shareholders approved a return of capital of 3.5188 cents per share together with a special dividend of 0.6210 cents per share. Both the return of capital and special dividend were paid to shareholders on 15 July 2022. Having been approved and declared on 29 June 2022 the special dividend was accrued in the financial statement of the Group for the year ending 30 June 2022.

## 27. Earnings per Share

| | 12 months to June 2022 £,000 | 12 months to June 2021 £,000 |
|---|---|---|
| (Loss)/Profit after tax attributable to ordinary shareholders | (94,080) | 71,664 |

| | 30 June 2022 Number | 30 June 2021 Number |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 106,587,814 | 106,518,740 |
| Effects of dilution from share options | 1,679,532 | 1,724,532 |
| Weighted average number of ordinary shares (diluted) | 108,267,346 | 108,243,272 |

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| **Earnings per share** | | |
| Basic earnings per share (pence) | (88.27) | 67.28 |
| Diluted earnings per share (pence) – continuing operations | (88.27) | 66.21 |

## 28. Parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Profit/(loss) after tax | 26,357 | (319) |
| Total comprehensive income | 26,357 | (319) |

*Statement of financial position*

| | June 2022 £,000 | June 2021 £,000 |
|---|---|---|
| Total current assets | 2,890 | 3,359 |
| Total assets | 36,892 | 10,137 |
| Total current liabilities | 644 | 246 |
| Total liabilities | 644 | 246 |
| Equity | | |
| Issued share capital | 7,862 | 10,413 |
| Accumulated profits | 28,386 | (522) |
| Total equity | 36,248 | 9,891 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity has provided third party guarantees in relation to the debts of its subsidiaries. No deficiencies of assets exist in any of these subsidiaries.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity;
- Investments in associates are accounted for at cost, less any impairment, in the parent entity; and
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth WA 6000
PO Box 700 West Perth WA 6872
Australia

# INDEPENDENT AUDITOR'S REPORT

To the members of ThinkSmart Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of ThinkSmart Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| As disclosed in Note 10 of the financial report, the Group entered into a number of investment transactions during the year and at the year end held a significant asset in Block Inc.<br><br>In accordance with AASB 9 Financial Instruments, the asset is required to be carried at fair value at reporting date and any associated fair value movements reflected in profit or loss. | Our procedures included, but were not limited to the following:<br>• Verifying the ownership of the Block Shares;<br>• Re-calculating fair value of the Block Shares at year end using observable market spot price;<br>• Vouching investment movement and transactions to market announcements and signed agreements;<br>• Reviewing reports prepared by management's independent tax experts on tax implications arising from the transactions during the period in the UK and Australia;<br>• Assessing the competence, capability and objectivity of the external tax experts which included considering their experience and qualifications; and<br>• Assessing the adequacy of the related disclosures in Note 3(h), 6(h), 10 and 24(b) of the financial report. |

## Other information

The directors are responsible for the other information. The other information comprises the information contained in directors' report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 20 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of ThinkSmart Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO

Ashleigh Woodley

Director

Perth

14 September 2022

# Corporate Information

ABN 24 092 319 698

Directors
N R Montarello (Executive Chairman)
G Halton (Chief Financial Officer)
P Gammell (Non-Executive Director)
D Adams (Non-Executive Director)

Company Secretary
Kerin Williams (UK resident)
Jill Dorrington (Australian resident)

Registered and Principal Office
Suite 5, 531 Hay Street
Subiaco
WA 6008
Australia

Company Registrars
Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth WA 6000
Australia

Depositary
Computershare Investor Services plc
The Pavilions
Bridgewater Road
Bristol
BS13 8AE

ThinkSmart Limited shares are listed on AIM, a sub-market of the London Stock Exchange (AIM code: TSL).

Solicitors
Herbert Smith Freehills
250 St Georges Terrace
Perth WA 6000
Australia

Auditors
BDO
38 Station Street
Subiaco
Perth WA 6008
Australia

Bankers
Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000
Australia

Santander UK plc
298 Deansgate
Manchester
M3 4HH