

THINKSMART LIMITED
ABN 24 092 319 698

FINANCIAL REPORT
FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2014

THINKSMART LIMITED
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THINKSMART LIMITED

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the “Group”) consisting of ThinkSmart Limited (“the Company” or “ThinkSmart”) and the entities it controlled at the end of, or during, the 6 months ended 30 June 2014.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Ned Montarello

Executive Chairman

Ned was appointed Executive Chairman on 22 May 2010 and stepped down as Chief Executive Officer on 31 January 2014. Ned has over 28 years experience in the finance industry. He founded ThinkSmart in 1996 and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government’s Entrepreneur of the Year Award in 1998. Ned led the development of the Group’s Australian distribution network by building partnerships with key retailers, including JB Hi-Fi and Dick Smith. Ned also steered the expansion of the business into Europe, establishing agreements with DSG International and a joint venture with HBOS to launch in the UK. In 2007 Ned successfully listed, via I.P.O the business in Australia. In 2010 he lead the development of the “Infinity” product with Dixons to move into the “Business to Consumer” market for the first time in the UK. 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.

Keith Jones

MBA Bus

Executive Director and Chief Executive Officer

Keith joined the Board on 24 May 2013 and was appointed Chief Executive Officer on 1 February 2014. Keith has 30 years of retail experience in Europe including roles as Chief Executive Officer of JJB Sports plc and Group Retail Director of Dixons Retail plc, one of Europe’s largest electrical retailers. At Dixons, Keith was a member of the Group Executive Committee with responsibility for all UK and Ireland fascias including PC World and Currys. Previously he was Managing Director of PC World Stores Group with responsibility for stores in the UK, Spain, France, Italy and Nordics in addition to Group Service Operations. Keith has a MBA from the Manchester Business School.

David Griffiths

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

Non-Executive Director, Deputy Chairman

David joined the Board on 28 November 2000 and was appointed Deputy Chairman on 22 May 2010. David has over 14 years experience in investment banking at Macquarie Bank Limited and previously as Executive Chairman of Porter Western Limited. Prior to that he held a number of senior financial positions across a wide range of industries. He holds an Honours Degree in Economics and an honorary Doctor of Economics from The University of Western Australia, a Masters Degree in Economics from Australian National University and is a Fellow of the Australian Institute of Company Directors. David is Deputy Chairman of the Perth International Arts Festival and a Director of the Contemporary Dance Company of Western Australia. He is Chairman of Automotive Holdings Group Limited. David is Chair of the Audit and Risk Committee of ThinkSmart.

Steven Penglis

B. Juris and B. Law

Non-Executive Director

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

THINKSMART LIMITED DIRECTORS' REPORT

Fernando de Vicente

B. Econ, MBA Bus

Non-Executive Director

Fernando is a citizen of Spain who joined the Board on 7 April 2010 and the Audit and Risk Committee on 18 August 2013. Fernando has a Degree in Economics (International Development) from the University Complutense in Madrid, and an Executive MBA from IESE Business School in Madrid.

Fernando spent nine years at Dixons Retail, one of Europe's largest electrical retailers. His latest role in Dixons was International Managing Director, with responsibility for Dixons Central & Southern European operations, an A\$3 billion business with 350 stores across six countries. Fernando started his career with Dixons in 2001 as Finance Director for the Spanish subsidiary, and became the MD of the subsidiary in 2003. In 2006 he was promoted to Regional Managing Director for South-East Europe based in Greece, before assuming the role of International Managing Director in 2008.

In March 2010, Fernando left Dixons to become the Executive Chairman of BodyBell Group, one of Spain's largest speciality retailers. On 15 February 2012, Fernando was appointed Non-Executive Director of Levantina, a leading multinational company dealing with natural stone products.

COMPANY SECRETARY

Neil Hackett (Appointed 11 June 2014)

B. Ec, FFin, GAICD

Mr Neil Hackett holds a Bachelor of Economics from the University of Western Australia, Post-graduate qualifications in Applied Finance and Investment, and is a Graduate (Order of Merit) with the Australian Institute of Company Directors. Mr Hackett is an Affiliate of the Governance Institute of Australia and a Fellow of the Financial Services Institute of Australia. He is currently Director and Company Secretary of Australian Securities Exchange listed entities; Azonto Petroleum Limited, Stratos Resources Limited, African Chrome Fields Limited and Modun Resources Ltd. Neil is also on the Board of two unlisted entities, Steel Blue Pty Ltd and WestCycle Inc.

Neil Barker (Resigned 11 June 2014)

B. Bus, FCPA

Neil Barker was appointed Company Secretary on 12 December 2013. Neil is a Certified Practising Accountant (Fellow) with over 30 years experience in banking and finance. He previously worked for ThinkSmart for 6 years until 2011, in the roles of Chief Operating Officer, Chief Financial Officer and Company Secretary. Prior to joining ThinkSmart in 2005, Neil was the Group Financial Controller of Alinta Limited, an Australian public listed company. Prior to joining Alinta, he was employed with the NAB Group in senior finance roles based in the UK and Australia.

PRINCIPAL ACTIVITIES

The Group's principal activity during the period was the provision of lease and rental financing services in the UK.

OPERATING AND FINANCIAL REVIEW

The Board of Directors of the Group resolved to change the Group's financial year end from 31 December to 30 June commencing from 1 January 2014. The corresponding period for income tax purposes will be an 18 month period from 1 January 2013 to 30 June 2014. The Board presents its Operating and Financial Review for the 6 month 2014 financial period. This information should be read in conjunction with the financial statements and accompanying notes.

Business model

ThinkSmart is a leading international finance company, creating differentiation and competitive advantage in 'point of sale' finance. It has an exclusive distribution agreement and partnership with one of the UK's leading electrical retailers and their customers. ThinkSmart's products leverage its sector leading software and processing IP for delivering fast finance solutions in today's complex retail environment and it offers a compelling and profitable value proposition for retail partners, customers and funders.

THINKSMART LIMITED DIRECTORS' REPORT

A decision to sell the Australian and New Zealand operations of the Group was made in 2013 after a full strategic review by the Board. The sale agreement for the Australian and New Zealand operations for \$43m was executed on 12 December 2013 and settled 31 January 2014. This has enabled the Group to focus on the UK market with its 62 million consumers and allow it to continue to build on the strong relationship it has with the UK's dominant electrical retailer – Dixons, and to further develop new products, relationships and markets as well as invest in synergistic growth opportunities.

Key financial data

For the	Continuing operations			Discontinued operations			Total		
	June 2014	June 2013	Dec 2013	June 2014	June 2013	Dec 2013	June 2014	June 2013	Dec 2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total revenue	11,461	9,583	18,933	17,257	7,936	18,758	28,718	17,519	37,691
Indirect customer acquisition costs	(3,805)	(2,390)	(4,943)	(89)	(1,001)	(1,361)	(3,894)	(3,391)	(6,304)
Operating expenses	(4,960)	(5,028)	(9,923)	(3,694)	(4,933)	(13,039)	(8,654)	(9,961)	(22,962)
Depreciation and amortisation	(275)	(206)	(463)	(197)	(1,217)	(2,399)	(472)	(1,423)	(2,862)
Impairment losses	(155)	(271)	(255)	-	(1,695)	(2,338)	(155)	(1,966)	(2,593)
Profit / (loss) before tax	2,266	1,688	3,349	13,277	(910)	(379)	15,543	778	2,970
Income tax (expense) / benefit	(716)	(339)	(752)	(3,490)	239	91	(4,206)	(100)	(661)
Profit / (loss) after tax	1,550	1,349	2,597	9,787	(671)	(288)	11,337	678	2,309

Summary of results (6 months ended 30 June 2014 compared to 12 months ended 31 December 2013)

- Net profit after tax of \$11.3m is inclusive of \$9.8m after tax profit from the sale of the Australian and New Zealand businesses, compared to a profit in 2013 of \$2.3m
- Total revenue of \$28.7m, down 24%
- Total expenses of \$13.2m, down 62%
- Operating expenses of \$8.7m, down 62%
- Available cash assets of \$38.5m, up 422%
- Earnings per share of 7.06 cents, compared to an earnings per share of 1.45 cents in 2013
- A special dividend of 3.6 cents per share, fully franked was declared on 31 January 2014 and paid on 19 February 2014

Review of operations

Continuing operations – UK

A consistent set of results was delivered by the UK business with profit contribution of \$3.7m before tax (H1 2013: \$4m). Cash flow generation of \$3.6m before inter company payments, is up 140% from \$1.5m in H1 FY2013.

New originations totalling \$14.7m are down 9% on a constant currency basis (H1 2013: \$16.1m). This is mainly a result of the drop off in the consumer product 'Infinity' which has since been superseded by the new refreshed consumer offering branded 'Upgrade Anytime' launched 15th May 2014. Upgrade Anytime has enabled the company to broaden the product range to now include televisions as well as computers and tablets. This combined with strong repeat business (circa 30%) is now producing a strong pattern of growth with volumes +29% year on year to June 2014 in this sector. In addition the company is engaged with Dixons over refreshing the business offering, 'SmartPlan' in the second half of 2014.

UK average transaction values (ATV's) have increased from £663 to £756. The majority of this uplift was driven through the new television category within Upgrade Anytime.

Operating costs as a percentage of revenue have fallen to 28% from 28.6% as the business model becomes more efficient and continues to leverage scalability.

Continuing operations – Corporate

Corporate costs fell by \$0.9m to \$1.4m from \$2.3m in H1 2013 as a result of the sale of the Australian and New Zealand Operations.

THINKSMART LIMITED
DIRECTORS' REPORT

Discontinued operations – Australia and New Zealand

During 2014, the performance in the Australian operations improved from a loss of \$0.9m in 2013 H1 to a loss of \$0.1m in the current period. Total revenue and costs have significantly reduced due to the sale of the Australian and New Zealand operations on 31 January 2014. As a result of the sale, the amount disclosed as a discontinued operation for the period to June 2014 only reflects the trading results for the month of January 2014.

Financial position and cash flows

Summary financial position

As at	30 June 2014 \$000	31 December 2013 \$000
Cash and cash equivalents (unrestricted)	38,498	7,375
Cash and cash equivalents (restricted)	572	194
Other assets	12,216	16,605
Goodwill and intangibles	16,216	16,613
Assets held for sale	-	66,617
Total assets	67,502	107,404
Other liabilities	8,555	12,677
Liabilities held for sale	-	41,108
Total liabilities	8,555	53,785
Equity	58,947	53,619
Net cash from operating activities	2,536	1,538

The sale of the Australian and New Zealand operations on 31 January 2014 is reflected in the table above through the increase in cash and realisation of assets and liabilities held for sale as at 31 December 2013.

The company remains debt free and available cash of \$38.5m at the end of June 2014 is up from \$7.4m at 31 December 2013, driven by the sale and operating cash generation.

Operating activities cash generation of \$2.5m is up from \$1.5m in FY2013, with UK operations contributing \$3.6m (H1 2013: \$1.5m) for the year.

A special dividend of 3.6 cents per share, fully franked was declared on 31 January 2014 and paid on 19 February 2014.

THINKSMART LIMITED DIRECTORS' REPORT

Business strategies and prospects for future financial years

Distribution network

ThinkSmart has an 11 year partnership with Dixons, now extended to 2017 and there is now a strong leadership focus on the UK, aimed at establishing additional relationships.

Operational capability and efficiency

With the recent appointment of a UK based CEO (Executive Director Mr Keith Jones), with extensive retail experience, ThinkSmart plans to use its market leading IP capability to further develop its multi-channel operating model at an efficient and scalable level.

Asset quality

Our continued focus on consistent improvements in loss history, which improves the cost of funding, will make ThinkSmart a more attractive proposition to potential new funding partners.

Product diversification

Upgrade Anytime was launched on 15 May 2014 and replaced the Infinity consumer product within Dixon stores. Upgrade Anytime has broadened the category range to TVs and gives the customer more flexibility in terms of upgrading early and product/service range.

The SmartPlan offering will be revitalised in the second half of 2014, targeting realignment to meet the changing retail environment. In addition to existing products, our in-house development capability will be used to develop bespoke products for new partners and markets.

Funding platform and cash resources

Funding access with the Group's UK funding partner remain at GBP£60m contracted to April 2016. The Group plans to move to a multi-funder model. The increased group cash balance of \$38.5m is expected to assist with this funding plan as well as provide the resources to invest in new opportunities within the finance sector.

Risks

ThinkSmart accepts that risk is an inherent part of doing business and actively identifies, monitors and manages material risks.

Key material risks faced by the group are:

Credit risk

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 either directly through impairment losses or indirectly through funding costs. Robust credit checking and collections processes combined with continual development of our market leading IP capability in this area assist in managing and mitigating this risk.

Achievement of Volume Growth

The Group's ability to achieve its growth targets is impacted by its Retail partners' own growth strategies, key relationships with those partners, the ability to establish new partnerships, regulatory risks or product lines, and the broader economic environment particularly in the retail sector.

Funding

The availability and cost of funds impacts the Group's product pricing decisions, its ability to accept volume growth delivered by its partners and the ultimate profitability of its products. The historic credit quality of ThinkSmart's lending, market competition for debt and other macro-economic factors also impact this risk.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

As set out in Notes 8 and 11 of the Financial Report, on 12 December 2013 the Group announced the sale of its Australian and New Zealand operations to FlexiGroup Limited for \$43.0m. The settlement of the sale completed on 31 January 2014.

CHANGE OF FINANCIAL YEAR END

The Board of Directors of the Group resolved to change the Group's financial year end from 31 December to 30 June of each year. As a result of the change, the financial report for the Group at 30 June 2014 reflects the results for the six months ending 30 June 2014.

The comparatives within the financials statement and notes relate to the 12 months ended 31 December 2013.

THINKSMART LIMITED
DIRECTORS' REPORT

DIVIDENDS

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

Declared and paid during the period 2014	Cents per share	Total amount	Franked/unfranked	Date paid
Special dividend	3.6 cents	\$5,843,055	Fully franked	19 February 2014

The company received \$163,002 of the above special dividend back in relation to employee loan funded shares and the net amount of \$5,680,054 is recorded in the Consolidated Statement of Changes in Equity and Consolidated Cash Flow.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not arisen, in the interval between the end of the financial period and the date of this report, any 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.

DIRECTORS' MEETINGS

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

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	A	B	A	B	A	B
N Montarello	7	7	1*	-	1*	-
D Griffiths	7	7	1	1	1	1
S Penglis	7	7	1	1	1	1
F de Vicente	5	7	1	1	-	1
K Jones	7	7	1*	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the period

* – Attendance by invitation from the Committee

DIRECTORS' INTERESTS

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

	Number of ordinary shares	Options granted over ordinary shares
N Montarello	30,559,356	-
D Griffiths	2,592,001	-
S Penglis	1,272,600	-
F de Vicente	603,500	-
K Jones	341,000	2,000,000

THINKSMART LIMITED DIRECTORS' REPORT

Unissued Shares under Options

At the date of this report there were 3,050,000 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
300,000	\$0.19	09 August 2017
750,000	\$0.27	04 July 2018
1,000,000	\$0.35	10 June 2019
1,000,000	\$0.42	10 June 2019

All options expire on the earlier of their expiry date or the termination of the option holder's employment. Further details are included in the remuneration report on pages 7 to 18. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

REMUNERATION REPORT - Audited

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

- A: Principles of remuneration
- B: Key Management Personnel remuneration
- C: Service agreements
- D: Share-based compensation (loan-funded shares and options)
- E: Share-based compensation (shares)
- F: Bonus remuneration
- G: 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 comprise for the 6 months ended 30 June 2014:

Executive Chairman

N Montarello

Executive Director and Chief Executive Officer

K Jones

Non-Executive Directors

D Griffiths (deputy Chairman)

S Penglis

F de Vicente

Executives

G Halton (Group Chief Financial Officer)

A Baum (Former Group Chief Operating Officer) (Resigned 31/3/14)

G Varma (Former Group Chief Information Officer) (Resigned 31/3/14)

THINKSMART LIMITED

DIRECTORS' REPORT

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

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

The remuneration structures take into account:

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

The Nomination and Remuneration Committee 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 was approved by shareholders at a previous general meeting. The total fees paid in the 2014 financial period were \$104,334. 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 (LTIs); and
- other remuneration such as superannuation.

		At risk	
	Fixed remuneration	Short-term incentive	Long-term incentive
CEO	85%	14%	1%
CFO, COO	93%	-%	7%
Other executives	95%	-%	5%

Base Pay – Fixed Compensation

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

THINKSMART LIMITED

DIRECTORS' REPORT

Short-Term Performance Incentive

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

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

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

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

Long-Term Performance Incentive

Long-term performance incentives are awarded to Key Management Personnel and other Executives. Prior to 2012, incentives were awarded under the Company's Executive Share Option Plan. In May 2012, shareholders approved a Long Term Incentive Plan designed to increase the motivation of staff and to create a stronger link between increasing shareholder value and employee award. The details of these schemes are set out on pages 10 to 11.

Consequences of Performance on Shareholder Wealth

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

	6 Months to June 2014	12 Months to Dec 2013	12 Months to Dec 2012	12 Months to Dec 2011	12 Months to Dec 2010
Profit/(loss) attributable to owners of the company (\$000s)	\$11,337	\$2,309	(\$1,441)	\$6,798	\$6,773
Basic EPS	7.06 cents	1.45 cents	(0.95) cents	5.23 cents	6.52 cents
Dividends paid	\$5,843,055	-	-	\$4,545,779	\$1,937,788
Dividend paid per share	3.6 cents	-	-	3.5 cents	2 cents
Share price at year end	\$0.37	\$0.36	\$0.19	\$0.41	\$0.73
Change in share price	\$0.01	\$0.17	(\$0.22)	(\$0.32)	(\$0.17)

THINKSMART LIMITED
DIRECTORS' REPORT

During 2012, the Board implemented a new loan-funded share plan for Executives located in Australia, following shareholder approval in May 2012. The limited recourse loans to acquire shares are issued to Executives and the ability to exercise the shares is conditional on the Group achieving the pre-determined performance criteria. There were no loan-funded shares issued to Executives in 2014 and the table below summarises the 2013 loan-funded shares issued:

Instrument	Each loan-funded share represents an entitlement to one ordinary share.																													
Limited recourse loan	The company is providing interest-free, limited recourse loans to Executives to acquire shares. The limited recourse loan means that if the shares do not vest for any reason or the value of the shares is less than the outstanding loan value when it is required to be repaid, the participant's liability is limited to the value of the shares.																													
Exercise price	2012 loan-funded share issue: \$0.1923 2013 loan-funded share issue: \$0.2652																													
Vesting conditions	<p>Shares will vest at the end of the three years from the issue date if at any time during this period the volume-weighted average price of the Company's shares on ASX over any consecutive 30 trading days is, or is in excess of, the following performance conditions.</p> <table border="1"> <thead> <tr> <th>Loan-funded share issue</th> <th>VWAP target</th> <th>Percentage of shares vesting</th> </tr> </thead> <tbody> <tr> <td colspan="3">2012</td> </tr> <tr> <td>Tranche 1</td> <td>\$0.35</td> <td>25%</td> </tr> <tr> <td>Tranche 2</td> <td>\$0.55</td> <td>25%</td> </tr> <tr> <td>Tranche 3</td> <td>\$0.75</td> <td>50%</td> </tr> <tr> <td colspan="3">2013</td> </tr> <tr> <td>Tranche 1</td> <td>\$0.3802</td> <td>25%</td> </tr> <tr> <td>Tranche 2</td> <td>\$0.4889</td> <td>25%</td> </tr> <tr> <td>Tranche 3</td> <td>\$0.5975</td> <td>50%</td> </tr> </tbody> </table> <p>Vesting is subject to the Executive remaining an employee of the Group.</p>			Loan-funded share issue	VWAP target	Percentage of shares vesting	2012			Tranche 1	\$0.35	25%	Tranche 2	\$0.55	25%	Tranche 3	\$0.75	50%	2013			Tranche 1	\$0.3802	25%	Tranche 2	\$0.4889	25%	Tranche 3	\$0.5975	50%
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Why vesting conditions are chosen	The vesting conditions were chosen to align the financial interests of participants with those of shareholders.																													
Vesting date	2012 loan-funded share issue: 10 August 2015 2013 loan-funded share issue: 04 July 2016																													
Performance period	2012 loan-funded share issue: 10 August 2012 to 10 August 2015 2013 loan-funded share issue: 04 July 2013 to 04 July 2016																													
Exercise period	From vesting date until expiry date																													
Expiry date	2012 loan-funded share issue: 10 August 2017 2013 loan-funded share issue: 04 July 2018																													

THINKSMART LIMITED
DIRECTORS' REPORT

The table below sets out the details of the performance options issued to Executives in 2013 and 2014.

Instrument	Each option represents an entitlement to one ordinary share.		
Exercise price	2012 performance option issue: \$0.1923 2013 performance option issue: \$0.2652 2014 Series 1 performance option issue: \$0.3448 2014 Series 2 performance option issue: \$0.4195		
Vesting conditions	Options will vest at the end of the three years from the issue date if at any time during this period the volume-weighted average price of the Company's shares on the ASX over any consecutive 30 trading days is, or is in excess of, the following performance conditions.		
	Performance option issue	VWAP target	Percentage of shares vesting
	2012		
	Tranche 1	\$0.35	25%
	Tranche 2	\$0.55	25%
	Tranche 3	\$0.75	50%
	2013		
	Tranche 1	\$0.3802	25%
	Tranche 2	\$0.4889	25%
	Tranche 3	\$0.5975	50%
	2014	Series1	Series2
	Tranche 1	\$0.4827	\$0.5873
	Tranche 2	\$0.6206	\$0.7551
	Tranche 3	\$0.7586	\$0.9229
	Vesting is subject to the Executive remaining an employee of the Group.		
Why vesting conditions are chosen	The vesting conditions were chosen to align the financial interests of participants with those of shareholders.		
Vesting date	2012 performance option issue: 10 August 2015 2013 performance option issue: 04 July 2016 2014 performance option issue: 11 June 2017		
Performance period	2012 performance option issue: 10 August 2012 to 10 August 2015 2013 performance option issue: 04 July 2013 to 04 July 2016 2014 performance option issue: 11 June 2014 to 11 June 2017		
Exercise period	From vesting date until expiry date		
Expiry date	2012 performance option issue: 10 August 2017 2013 performance option issue: 04 July 2018 2014 performance option issue: 11 June 2019		

B. Key Management Personnel Remuneration

Services from Remuneration Consultants

No remuneration consultants were used in 2014.

Amount of Remuneration

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

THINKSMART LIMITED
DIRECTORS' REPORT

		Short Term				Post employment		Other long term	Share-based payments		Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits	Termination benefits	Long service entitlement	Options & rights #	Shares			
		\$	\$	\$	\$	\$	\$	\$	\$	\$			
Directors													
Non-Executive Directors													
D Griffiths	2014	33,750	-	-	33,750	3,122	-	-	-	-	36,872	-	-
	2013	64,125	-	-	64,125	5,856	-	-	-	-	69,981	-	-
S Penglis	2014	31,750	-	-	31,750	2,937	-	-	-	-	34,687	-	-
	2013	60,325	-	-	60,325	5,509	-	-	-	-	65,834	-	-
F de Vicente	2014	32,775	-	-	32,775	-	-	-	-	-	32,775	-	-
	2013	62,205	-	-	62,205	-	-	-	-	-	62,205	-	-
N Fox†	2014	-	-	-	-	-	-	-	-	-	-	-	-
	2013	13,500	-	-	13,500	1,215	-	-	-	-	14,715	-	-
Executive Director													
N Montarello	2014	185,727	-	-	185,727	12,500	-	3,114	23,458	-	224,799	10%	10%
	2013	622,305	-	1,368	623,673	25,000	-	10,062	(27,037)	-	631,698	(4%)	(4%)
Executives													
K Jones*	2014	333,382	56,012	-	389,394	-	-	-	4,581	-	393,975	15%	1%
	2013	39,674	-	-	39,674	-	-	-	-	-	39,674	-	-
A Baum (i)	2014	106,250	-	-	106,250	6,250	189,661	-	(21)	27,569	329,709	8%	-
	2013	413,479	-	1,368	414,847	25,000	-	-	(8,170)	99,319	530,996	17%	(2%)
G Halton	2014	119,595	-	1,079	120,674	5,638	-	-	4,990	-	131,302	4%	4%
	2013	210,381	-	1,627	212,008	9,909	-	-	193	-	222,110	-	-
A Stevens	2014	-	-	-	-	-	-	-	-	-	-	-	-
	2013	343,924	-	1,311	345,235	25,000	-	-	(8,333)	-	361,902	(2%)	(2%)
G Varma (i)	2014	68,750	-	-	68,750	6,286	177,394	-	(13)	-	252,417	-	-
	2013	236,152	-	1,368	237,520	20,597	-	3,732	478	-	262,327	-	-
Total	2014	911,979	56,012	1,079	969,070	36,733	367,055	3,114	32,995	27,569	1,436,536	2%	2%
Total	2013	2,066,070	-	7,042	2,073,112	118,086	-	13,794	(42,869)	99,319	2,261,442	(2%)	(2%)

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

* - Keith Jones (previously a Non Executive Director) was appointed as an Executive Director on the 1st of February 2014. Included within salary and fees is a relocation allowance of \$100,000.

† - This information is provided for comparative purposes.

- Includes loan-funded share rights.

(i) – Ceased employment on 31/03/2014

THINKSMART LIMITED DIRECTORS' REPORT

C. Service Agreements

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

As announced to the market on 12 November 2013, Keith Jones was appointed Chief Executive Officer, effective 1 February 2014. Ned Montarello will remain Executive Chairman.

Remuneration and other terms of employment for the Chief Executive Officer are formalised in a service agreement. Keith Jones' employment agreement, signed on 11 November 2013, is a rolling agreement which is unlimited in term but capable of termination with six months notice by either party. All other employment agreements are unlimited in term but capable of termination with one to three months notice by either the Company or the Executive. The Company can make a payment in lieu of notice.

In the event of retrenchment, the Executives listed in the table on page 12 are entitled to the payment provided for in the service agreement, where applicable. The employment of the Executives may be terminated by the Company without notice by payment in lieu of notice. The service agreements also contain confidentiality and restraint of trade clauses.

D. Share-Based Compensation (loan-funded shares and options)

Loan-Funded Shares and Options

Details of ordinary shares in the Company that were granted as part of the loan-funded share plan to Key Management Personnel in July 2013, and the options over ordinary shares in the Company that were granted to Key Management Personnel in July 2013 and details on options that vested during the reporting period are as follows:

	Number of options/shares granted during 2014	Grant date	Fair value per share at grant date \$	Exercise price per share \$	Expiry date	Number of options/shares vested during 2014
Directors						
K Jones	1,000,000	11/06/2014	\$0.135-\$0.158	\$0.3448	10/06/2019	-
K Jones	1,000,000	11/06/2014	\$0.104-\$0.131	\$0.4195	10/06/2019	-

All shares and options were granted during the financial period. The shares and options are subject to Performance Conditions as set out on pages 10 to 11. The options are provided at no cost to the recipients. No shares have been granted since the end of the financial period.

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

THINKSMART LIMITED
DIRECTORS' REPORT

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

Options and loan-funded shares granted

	Number granted	Grant Date	% vested in period	% forfeited, lapsed or expired in period (a)	Financial year in which grant vests
Director					
N Montarello	1,000,000	10/08/2012	-%	-%	2015
	1,000,000	04/07/2013	-%	-%	2016
K Jones	1,000,000	11/06/2014	-%	-%	2017
	1,000,000	11/06/2014	-%	-%	2017
Executives					
A Baum (b)	333,333	10/08/2012	56%	44%	2015
	333,333	04/07/2013	25%	75%	2016
G Halton	100,000	10/08/2012	-%	-%	2015
	250,000	04/07/2013	-%	-%	2016
G Varma (b)	200,000	10/08/2012	56%	44%	2015
	200,000	04/07/2013	25%	75%	2016

- (a) The % forfeited, lapsed or expired in the year represents the reduction from the maximum number of loan-funded shares or options available to vest due to either the performance conditions attached to the loan-funded shares or options not being met or the departure of the Executive from the Group.
- (b) As per redundancy agreements the loan-funded shares still within the performance period were allowed to vest on a pro rata basis up to the employee termination date.

Analysis of Movement of Options and Loan-Funded Shares

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

	Granted in period (a)	Exercised in period (b)	Lapsed in period (c)
	\$	\$	\$
Directors			
N Montarello	-	-	-
K Jones	258,300	-	-
Executives			
A Baum	-	47,011	31,635
G Halton	-	-	-
G Varma	-	28,207	18,981
	<u>258,300</u>	<u>75,218</u>	<u>50,616</u>

- (a) The value of loan-funded shares granted in the period is the fair value of the loan-funded shares calculated at grant date using a Monte-Carlo option-pricing model. This total amount is allocated to remuneration over the vesting period.
- (b) The value of options exercised during the period is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options/loan-funded shares that lapsed during the period represents the benefit forgone and is calculated at the date the option/loan-funded share lapsed or was forfeited using original fair value.

THINKSMART LIMITED
DIRECTORS' REPORT

Employee Options and Loan-Funded Shares

2014	Held at 1 January 2014	Held at date of new appointment	Granted as compensation	Other movement	Lapsed, forfeited or expired	Held at 30 June 2014	Vested during the period	Vested and exercisable at 30 June 2014
Directors								
N Montarello	2,000,000	-	-	-	-	2,000,000	-	-
K Jones	-	-	2,000,000	-	-	2,000,000	-	-
D Griffiths	-	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-	-
Executives								
A Baum	666,666	-	-	-	(398,148)	-	(268,518)	n/a
G Halton	350,000	-	-	-	-	350,000	-	-
G Varma	400,000	-	-	-	(238,889)	-	(161,111)	n/a
2013	Held at 1 January 2013	Held at date of new appointment	Granted as compensation	Other movement	Lapsed, Forfeited or expired	Held at 31 December 2013	Vested during the year	Vested and exercisable at 31 December 2013
Directors								
N Montarello	3,000,000	-	-	-	(1,000,000)	2,000,000	-	-
D Griffiths	-	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-	-
N Fox	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Executives								
A Baum	999,999	-	333,333	-	(666,666)	666,666	-	-
G Halton	450,000	-	250,000	-	(350,000)	350,000	-	-
A Stevens	500,000	-	-	-	(500,000)	-	-	-
G Varma	400,000	-	200,000	-	(200,000)	400,000	-	-

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

THINKSMART LIMITED
DIRECTORS' REPORT

E. Share-Based Compensation (shares)

There were no shares granted to Key Management Personnel during the reporting period.

No shares were granted since the end of the financial period.

Analysis of Shares Granted as Remuneration

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

	Shares granted		% vested	% forfeited	Financial year in
	Number of	Grant	in period	in period (a)	which grant vest
	shares	Date			
Executives					
A Baum (b)	125,000	01/09/2011	100%	-%	2014
A Baum (b)	125,000	03/10/2012	100%	-%	2014

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

(b) As per redundancy agreement 250,000 fully paid shares were released to the employee from escrow and subsequently vested in the period.

Analysis of Movement of Shares

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

	Granted in period	Vested in period	Lapsed in period
	(a)	(b)	(c)
	\$	\$	\$
Executives			
A Baum	-	103,750	-

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

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

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

THINKSMART LIMITED
DIRECTORS' REPORT

Movement in shares

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

2014	Held at 1 January 2014	Purchases	Rights issue	Sales	Received on exercise of options	Loan-funded share issue	Loan-funded share issue lapsed, forfeited or expired	Granted as compensation	Held at 30 June 2014
Directors									
N Montarello	30,559,356	-	-	-	-	-	-	-	30,559,356
D Griffiths	2,592,001	-	-	-	-	-	-	-	2,592,001
S Penglis	1,272,600	-	-	-	-	-	-	-	1,272,600
F de Vicente	426,000	177,500	-	-	-	-	-	-	603,500
Executives									
K Jones	-	341,000	-	-	-	-	-	-	341,000
A Baum	1,792,798	-	-	-	-	-	(398,148)	-	n/a
G Varma	400,000	-	-	-	-	-	(238,889)	-	n/a
2013	Held at 1 January 2013	Purchases	Rights issue	Sales	Received on exercise of options	Loan-funded share issue	Loan-funded share issue lapsed, forfeited or expired	Granted as compensation	Held at 31 December 2013
Directors									
N Montarello	29,559,356	-	-	-	-	1,000,000	-	-	30,559,356
D Griffiths	2,592,001	-	-	-	-	-	-	-	2,592,001
S Penglis	1,272,600	-	-	-	-	-	-	-	1,272,600
F de Vicente	356,500	69,500	-	-	-	-	-	-	426,000
N Fox	81,600	-	-	-	-	-	-	-	n/a
K Jones	-	-	-	-	-	-	-	-	-
Executives									
A Baum	1,459,465	-	-	-	-	333,333	-	-	1,792,798
A Stevens	500,000	-	-	-	-	500,000	(1,000,000)	-	n/a
G Varma	200,000	-	-	-	-	200,000	-	-	400,000

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

THINKSMART LIMITED
DIRECTORS' REPORT

F. Bonus Remuneration

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

	Included in remuneration (a) \$	Short term incentive bonus		
		Maximum entitlement \$	% vested in period	% forfeited in period (b)
Directors				
N Montarello	-	-	-%	-%
K Jones	56,012	186,707	30%	-%
Executives				
A Baum	-	-	-%	100%
G Halton	-	22,551	-%	100%
G Varma	-	-	-%	100%

- (a) Amounts included in remuneration for the financial period represent the amount that vested in the financial period based on achievement of personal goals and satisfaction of specified performance criteria pertaining to the 2014 financial period. 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 period.

Bonus payments of \$56,012 were awarded to Key Management Personnel with respect to the 2014 financial period.

G. 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 2014 (2013: nil), with the exception of the limited recourse loans in relation to the loan-funded share scheme (refer to Note 19(b)(i) and pages 10 – 11 of this Remuneration Report).

Other Key Management Personnel transactions

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

Options and rights over equity instruments

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

The following shares are subject to escrow as at 30 June 2014 (refer to Note 19(b)(ii)):

	Held at 30 June 2014	Held at 31 December 2013
Executive		
A Baum	-	250,000

THINKSMART LIMITED

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

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

Board of Directors

Composition of the Board

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

- The Board should comprise a majority of independent Non-Executive Directors and comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds.
- The Board considers the diversity of existing and potential Directors. The Board's policy is to seek a diverse range of Directors who have a range of ages, genders and ethnicity which mirrors the environment in which ThinkSmart operates.
- The Board does not believe that it should establish a limit on the tenure of the Director. While tenure limits can help to ensure that fresh ideas and viewpoints are available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight in the Company and its operation.
- The Board regularly reviews the independence of each Director in light of the interests disclosed to the Board.
- A minimum of three Directors and a maximum of twelve.

Role of the Board

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

To fulfil this role, the Board has adopted a charter which establishes the relationship between the Board and management and describes their functions and responsibilities. The Board's charter can be viewed on the Company's website (www.thinksmartworld.com). The Board's responsibilities, as set out in the Board Charter, include:

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

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

- appointment of the Chairman and Directors;
- appointment and removal of the Chief Executive Officer;
- development and review of corporate governance principles and policies; and
- approval of strategic plan operational budgets, major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management.

The Board has delegated responsibility for operations and administration of the Company to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

THINKSMART LIMITED DIRECTORS' REPORT

Board Committees

To assist in the execution of its responsibilities, the Board may delegate responsibility to committees to consider certain issues in further detail and then report back to and advise the Board. Committees established by the Board have adopted charters setting out the authority, responsibilities, membership and operation of the committee. There are currently two committees the Audit and Risk Committee and the Nomination and Remuneration Committee. Each committee has a charter which can be viewed on the Company's website.

Audit and Risk Committee

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

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

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

The Company maintains a risk management policy which can be found on the Company's website.

The Committee meets as often as the Committee members deem necessary in order to fulfil their role. The external auditors, Chief Executive Officer and Chief Financial Officer, are invited to the Audit and Risk Committee meetings at the discretion of the Committee. The external auditor met with the Audit and Risk Committee and the Board of Directors during the year without management being present.

Nomination and Remuneration Committee

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

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

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

Diversity

The Board is committed to having an appropriate blend of diversity on the Board and in the Group's senior executive positions. The Board is developing a policy on diversity, to complement and enhance its Anti-Discrimination and Equal Employment Opportunity Policy. The following represents the gender diversity in the Group as at 30 June 2014:

	Male	Female	Total	Male	Female	Total
Board Directors	5	0	5	100%	0%	100%
Executives	5	0	5	100%	0%	100%
Other	36	30	66	55%	45%	100%
	46	30	76	61%	39%	100%

Environmental Regulation

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

THINKSMART LIMITED DIRECTORS' REPORT

Ethical Standards

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

Conflict of Interest

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and the Group are set out in Note 26 to the financial statements.

Code of Conduct

The Company has developed a Code of Conduct which applies to all Directors, employees, contractors, consultants and associates of the Company and sets out the ethical standards expected when conducting business with employees, customers, funders, retailers and other external parties.

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

Share Trading Policy

ThinkSmart's Guidelines for Dealing in Securities explain and reinforce the Corporations Act 2001 requirements relating to insider trading. The Guidelines apply to all Directors and employees of the Group and their associates ("Relevant Persons").

The Guidelines expressly prohibit Relevant Persons buying or selling ThinkSmart securities where the Relevant Person or ThinkSmart is in possession of price sensitive or 'inside' information. The Guidelines establish windows where Relevant Persons (provided they are not in possession of inside information) may buy or sell the Company's shares in the period from 31 days following:

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

Outside the window period, Relevant Persons must receive clearance for any proposed dealing in ThinkSmart's securities on ASX as follows:

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

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

Continuous Disclosure

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

THINKSMART LIMITED

DIRECTORS' REPORT

Communication with Shareholders

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

The Disclosure Policy includes the following guidelines:

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

Financial Reporting

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

Performance Assessment

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

Independent Professional Advice

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

Indemnification and Insurance

During the period ended 30 June 2014, 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 period, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or Director.

THINKSMART LIMITED DIRECTORS' REPORT

NON-AUDIT SERVICES

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

The Board has considered the non-audit services provided during the period by the auditor is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	6 Months to June 2014 \$000
Services other than audit and review of financial statements	
<i>Other assurance services</i>	
Assurance services associated with disposal of the Australian business	57,946
<i>Other services</i>	
Taxation compliance services	29,135
Advisory services	<u>23,766</u>
	<u>110,847</u>
Audit and review of financial statements	<u>169,948</u>
Total paid to KPMG	<u>280,795</u>

THINKSMART LIMITED
DIRECTORS' REPORT

AUDITOR'S INDEPENDENCE DECLARATION

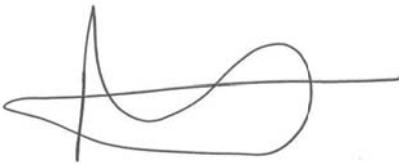
The auditor's independence declaration which forms part of this report is included in page 25 of the financial report.

ROUNDING

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

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

On behalf of the Directors

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

N Montarello
Chairman
Perth, Western Australia, 26 August 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of ThinkSmart Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the six month period ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Matthew Beevers
Partner

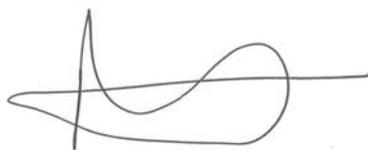
Perth

26 August 2014

THINKSMART LIMITED
DIRECTORS' DECLARATION

1. In the opinion of the Directors of ThinkSmart Limited:
 - (a) The consolidated financial statements, notes and disclosures in the Remuneration Report in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial period ended on that date; and
 - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and
 - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial period ended 30 June 2014.

Signed in accordance with a resolution of the Directors:



N Montarello
Chairman
Perth, Western Australia, 26 August 2014

Consolidated Statement of Profit and Loss
for the Financial Period Ended 30 June 2014

	Notes	6 Months to June 2014 \$000	12 Months to December 2013 \$000
Continuing operations			
Revenue	6(a)	10,161	16,737
Other revenue	6(b)	1,300	2,196
Total revenue		11,461	18,933
Indirect customer acquisition cost		(3,805)	(4,943)
Other operating expenses	6(c)	(4,960)	(9,923)
Depreciation and amortisation	6(d)	(275)	(463)
Impairment losses	6(e)	(155)	(255)
Profit before tax		2,266	3,349
Income tax expense	7	(716)	(752)
Profit after tax from continuing operations		1,550	2,597
Profit/(loss) from discontinued operation, net of tax	8	9,787	(288)
Profit/(loss) after tax		11,337	2,309
Earnings/(loss) per share			
Basic (cents per share)	28	7.06	1.45
Diluted (cents per share)	28	7.01	1.44
Earnings per share – continuing operations			
Basic (cents per share)	28	0.97	1.63
Diluted (cents per share)	28	0.96	1.62

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

**Consolidated Statement of Comprehensive Income
for the Financial Period Ended 30 June 2014**

	Notes	6 Months to June 2014 \$000	12 Months to December 2013 \$000
Profit/(loss) for the period		11,337	2,309
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation differences for foreign operations		(378)	3,158
Effective portion of changes in fair value of cash flow hedges relating to the disposal group, net of tax	8	45	45
<i>Total items that may be reclassified subsequently to profit or loss net of income tax</i>		(333)	3,203
Other comprehensive income for the period, net of income tax		(333)	3,203
Total comprehensive income for the period attributable to owners of the Company		11,004	5,512

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

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position
as at 30 June 2014

	Notes	June 2014 \$000	December 2013 \$000
Current assets			
Cash and cash equivalents	20(a)	39,070	7,569
Trade receivables		1,092	1,154
Other current assets	9	5,088	3,802
Assets held for sale	11	-	66,617
Total current assets		<u>45,250</u>	<u>79,142</u>
Non-current assets			
Plant and equipment	12	236	155
Intangible assets	13	12,000	12,318
Goodwill	15	4,216	4,295
Deferred tax assets	7	342	4,810
Other non-current assets	10	5,458	6,684
Total non-current assets		<u>22,252</u>	<u>28,262</u>
Total assets		<u>67,502</u>	<u>107,404</u>
Current liabilities			
Trade and other payables	16	3,247	2,264
Deferred service income	17	3,354	3,843
Tax payable	7	100	4,520
Provisions	16	233	360
Liabilities held for sale	11	-	41,108
Total current liabilities		<u>6,934</u>	<u>52,095</u>
Non-current liabilities			
Deferred service income	17	1,621	1,690
Total non-current liabilities		<u>1,621</u>	<u>1,690</u>
Total liabilities		<u>8,555</u>	<u>53,785</u>
Net assets		<u>58,947</u>	<u>53,619</u>
Equity			
Issued capital	19(a)	48,096	48,091
Reserves		(146)	188
Accumulated profits		10,997	5,340
Total equity		<u>58,947</u>	<u>53,619</u>

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

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity
for the financial Period Ended 30 June 2014

Consolidated	Fully paid ordinary shares	Equity settled employee benefits reserve	Foreign currency translation reserve	Hedging reserve	Accumulated Profit	Attributable to equity holders of the parent
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2013	48,073	1,073	(4,066)	(90)	3,031	48,021
Profit for the period	-	-	-	-	2,309	2,309
Exchange differences arising on translation of foreign operations, net of tax	-	-	3,158	-	-	3,158
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	45	-	45
Total other comprehensive income	-	-	3,158	45	-	3,203
Total comprehensive income for the period	-	-	3,158	45	2,309	5,512
Transactions with owners of the Company, recognised directly in equity						
<i>Contributions by and distributions to owners of the Company</i>						
Recognition of share-based payments	18	68	-	-	-	86
Balance at 31 December 2013	48,091	1,141	(908)	(45)	5,340	53,619
Balance at 1 January 2014	48,091	1,141	(908)	(45)	5,340	53,619
Profit for the period	-	-	-	-	11,337	11,337
Exchange differences arising on translation of foreign operations, net of tax	-	-	(378)	-	-	(378)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	45	-	45
Total comprehensive income for the period	-	-	(378)	45	11,337	11,004
Transactions with owners of the Company, recognised directly in equity						
<i>Contributions by and distributions to owners of the Company</i>						
Dividends paid (Note 19(c))	-	-	-	-	(5,680)	(5,680)
Share buyback	(229)	-	-	-	-	(229)
Cash received from exercise of employee share options	234	-	-	-	-	-
Recognition of share-based payments	-	(1)	-	-	-	233
Balance at 30 June 2014	48,096	1,140	(1,286)	-	10,997	58,947

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

Consolidated Statement of Cash Flows
for the Financial Period Ended 30 June 2014

	Notes	6 Months to June 2014 \$000	12 Months to December 2013 \$000
Cash Flows from Operating Activities			
Receipts from customers		14,797	58,988
Payments to suppliers and employees		(11,579)	(53,759)
Interest received		457	619
Interest and finance charges		(287)	(3,483)
Income tax paid		(852)	(854)
Payments from security guarantee		-	27
Net cash from operating activities	20(b)	2,536	1,538
Cash Flows from Investing Activities			
Disposal of discontinued operations net of cash disposed		26,366	-
Income tax paid on discontinued operations		(3,206)	-
Payments for plant and equipment		(355)	(215)
Payment for intangible assets – Software		-	(603)
Payment for intangible assets – Contract rights		(220)	(588)
Net cash used in investing activities		22,585	(1,406)
Cash Flows from Financing Activities			
Proceeds from other interest bearing liabilities		2,500	23,940
Repayment of other interest bearing liabilities		(2,296)	(24,020)
Dividends Paid		(5,680)	-
Share buyback		(229)	-
Proceeds from exercise of share options		234	-
Net cash from financing activities		(5,471)	(80)
Net increase in cash and cash equivalents		19,650	52
Effect of exchange rate fluctuations on cash held		(132)	932
Cash and cash equivalents from continuing operations at beginning of the financial year		7,569	18,568
Cash and cash equivalents from discontinued operations at beginning of year		11,983	-
Cash and cash equivalents from discontinued operations at end of period	11	-	(11,983)
Total cash and cash equivalents at the end of the financial period	20(a)	39,070	7,569
Restricted cash and cash equivalents at the end of the financial period	20(a)	(572)	(194)
Net available cash and cash equivalents at the end of the financial period		38,498	7,375

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

ThinkSmart Limited (the “Company” or “ThinkSmart”) is a publicly listed company, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the six months ended 30 June 2014 comprise of the Company and its subsidiaries (the “Group”). The Group is a for profit entity and its principal activity during the period was the provision of lease and rental financing services in the UK. The address of the Company’s registered office is 45 Ventnor Avenue, West Perth, WA 6005.

2. Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 26 August 2014.

(b) Basis of measurement

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

(c) Assets held for sale and discontinued operations

(i) Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than continued use.

Immediately before classification as held for sale, the assets, or components of a disposal group are remeasured in accordance with the Group’s other accounting policies.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

(ii) Discontinued operations

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

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

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

(d) Functional and presentation currency

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(e) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidation financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- (i) AASB 132 Financial Instruments: Presentation
- (ii) AASB 136 Impairment of Assets
- (iii) AASB 124 Related Party Transactions and AASB 2011-4

(i) Financial Instruments: Presentation

The existing requirements of AASB 132 have been clarified to confirm that, in order for a legally enforceable right of set off to result in an offset of financial assets and liabilities, the right of set off must be available immediately, and not contingent on future events. It must also be exercisable in the event of default, bankruptcy, or insolvency by either party. The adoption of this standard has had no material impact on the Group's consolidated financial statements.

(ii) Impairment of Assets

The amendment includes the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. In addition, a further requirement has been included to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. The Group has disclosed the discount rates used in Note 13 and Note 15. The change in accounting policy has had no material impact on the current or comparative periods.

(iii) Related Party Transactions

The amendment removes the requirement to include individual key management personnel disclosures in the notes to the financial statements. These disclosures will still need to be provided in the Remuneration Report under S.300A of the Corporations Act 2001. This change of accounting policy has resulted in the Group shifting some of the disclosures in Note 26 to the Remuneration Report.

(f) Change of Financial Year End

The Group has changed its financial year end from 31 December to 30 June. As a result of the change, the financial report for the Group at 30 June 2014 reflects the results for the six months ended 30 June 2014. The comparatives period disclosures are for the twelve months ended 31 December 2013.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing this financial report. Where an assessment has been completed, none of these are expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>). These requirements improve and simplify the approach for classification, measurement and de-recognition of financial assets compared with the requirements of AASB 139.	1-Jan-2015	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2015
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	(a) These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that set out requirements for the classification and measurement of financial assets. (b) This Standard shall be applied when AASB 9 is applied.			
AASB 2010-7	Amendments to Australian Accounting Standards arising from changes to AASB 9	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: (a) The change attributable to changes in credit risk are presented in other comprehensive income (OCI). (b) The remaining change is presented in profit or loss if this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.			

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Business combinations

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

Measuring goodwill

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

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

(c) Cash and cash equivalents

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(d) Plant and equipment

Recognition and measurement

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

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

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

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant 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	2.5 to 5 years
- Leasehold improvements	the lease term
- Self-funded rental assets	2.5 to 5 years
- Motor vehicles	5 years
- Leased computer equipment and software	2.5 to 5 years

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

(e) Trade and other payables

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

(f) Financial instruments

(i) Non-derivative financial assets

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

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

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

Investments

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Lease receivables

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

Unearned interest

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

Initial direct transaction costs

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

Allowance for losses

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

Effective interest method

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

Loan receivables

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

Insurance prepayment

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

(ii) Non-derivative financial liabilities

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

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Financial guarantee contracts

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

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

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

(iii) Impairment of assets

Financial assets, including finance lease receivables and loan receivables

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

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

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

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

All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit and loss.

Non-financial assets

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

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

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(g) Intangible assets

Intellectual property

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

Inertia Contracts

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

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

Contract Rights

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

Software development

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

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

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

(h) Goodwill

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

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

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

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

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(i) Employee benefits

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

The Group's net obligation in respect of long service leave is the amount of future benefit that employees earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The obligations are presented as current liabilities in the balance sheet as the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement occurs.

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

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

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

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

Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(j) Inventories

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

(k) Revenue recognition

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

Finance lease income

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

Commission income

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

THINKSMART LIMITED

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Residual interest in equipment (inertia income)

- Secondary rental income
Rental income from extended rental assets is recognised when receivable usually on a monthly basis. No ongoing rental income is brought to account in respect of the unexpired rental contracts.
- Income earned from sale of equipment
Proceeds from the sale of rental assets are brought to account at the time of the sale to the extent not already recognised through Finance lease income.

Insurance income

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

Interest income and expense

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

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

Deferred service income

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

(l) Share capital

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

(m) Income tax

Current tax

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

Deferred tax

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

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

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

THINKSMART LIMITED

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

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

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

Current and deferred tax for the period

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

Tax consolidation

The Company and its wholly owned Australian resident entities formed a tax-consolidated group during 2009. As a consequence, all members of the tax-consolidated group were taxed as a single entity from 1 January 2009 to 31 January 2014. The head entity within the tax-consolidated group is ThinkSmart Ltd.

(n) Goods and services tax

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

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

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

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

(o) Foreign currency transactions

Foreign currency transactions

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Foreign operations

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

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is classified to profit or loss.

(p) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(q) Provisions

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

(r) Lease payments

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

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

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

(s) Segment reporting

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

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

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

THINKSMART LIMITED

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(t) 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.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest 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 13 – Intangible assets;
- Note 13 – Intangible inertia assets;
- Note 19(b)(i) – Share based payment transactions; and
- Note 25(b) – Financial instruments.

4. Critical accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

- Note 13 - fair value at inception of inertia intangible assets and recoverable amount
- Note 15 - measurement of the recoverable amount of cash generating units containing goodwill
- Note 17 - measurement of deferred services income
- Note 19 - measurement of share-based payments

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5. Financial Risk Management

Overview

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

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

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

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

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

Credit Risk

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

The UK operations have an obligation to meet the cost of future bad debts incurred by its funders. The funder deposits discussed below represent security for that credit exposure and are recorded net of the Group's estimate of this credit risk. Further information is provided in Note 25.

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

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

Liquidity risk

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

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

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

THINKSMART LIMITED

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Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Australian dollar, Sterling and Euro.

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

Liabilities incurred in each respective geographical territory are paid for by the cash flows of the functional currency of that territory. Exposures for singular transactions greater than \$50,000 are considered for hedging by management, with forward exchange contracts to mitigate exchange rate risk and are considered separately as they arise. The consolidated entity has no forward exchange contracts as at reporting date (2013: nil).

In respect of other monetary assets and liabilities denominated in foreign currencies, the management ensures that the Group's net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address the short term imbalances (refer to Note 25 for further information).

Interest rate risk

The Group has no current or non-current corporate borrowings as at 30 June 2014 (2013: nil). Exposure to interest rate risk on any future corporate borrowings will be assessed by the Board and where appropriate, the exposure to movement in interest rates may be hedged by entering into interest rate swaps, when considered appropriate by the management and the Board.

Operational risk

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

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

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

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Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management aims to maintain a capital structure that ensures the lowest cost of capital available to the Group. Management constantly reviews the capital structure to ensure an increasing return on assets.

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

	June 2014	December 2013
	\$000	\$000
Total liabilities	8,555	53,785
Less cash and cash equivalents	(39,070)	(7,569)
Net debt	<u>-</u>	<u>46,216</u>
Total equity	<u>58,947</u>	<u>53,619</u>
Debt-to-adjusted capital ratio	<u>-</u>	<u>0.9</u>

For the purposes of capital management, capital consists of share capital, reserves and retained earnings. The company has no external debt at 30 June 2014 other than normal trade creditors and trade payables.

The Board assesses the Group's ability to pay dividends from time to time. During 2014, the Board declared and paid a special dividend of \$5.843m equating to 3.6 cents per share (refer to Note 19(c)).

On 20 February 2014, the Company announced an on market buyback to be conducted over a period of up to 12 months. The buyback is for a maximum of 15,926,376 shares in the Company, equating to 9.81% of the Company's issued capital. In the period to 30 June 2014, 572,981 shares had been bought back as set out in Note 19(a).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Notes	6 months to June 2014 \$000	12 months to December 2013 \$000
6. Consolidated Statement of Profit and Loss			
Profit/(loss) from continuing operations is arrived at after crediting/(charging) the following items:			
(a) Revenue			
Interest revenue – other entities		560	410
Surplus unguaranteed residual income		2,025	2,381
Extended rental income		2,707	3,845
Other inertia income	17	2,519	4,060
Fee revenue – customers		195	364
Commission income		2,155	5,677
		10,161	16,737
(b) Other revenue			
Services revenue – insurance		1,220	2,085
Other revenue		80	111
		1,300	2,196
(c) Other operating expenses			
Employees benefits expense:			
- Payments to employees		3,177	6,270
- Employee superannuation costs		185	329
- Share-based payment expense		(1)	82
- Provision for employee entitlements		(117)	77
		3,244	6,758
Occupancy costs		233	390
Professional services		656	1,434
Finance charges		119	184
Other costs		708	1,157
		4,960	9,923
(d) Depreciation and amortisation			
Depreciation		93	188
Amortisation		182	275
		275	463
(e) Impairment losses			
Impairment losses on intangible assets (net)		155	255

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Notes	6 months to June 2014 \$000	12 months to December 2013 \$000
7. Income Tax			
The major components of income tax expense/(benefit) for the 6 months ended 30 June 2014 are:			
<i>Current income tax expense</i>			
Current income tax charge		710	775
Adjustment for prior period		1	(8)
<i>Deferred income tax expense</i>			
Origination and reversal of temporary differences		2	(15)
Adjustment for prior period		3	-
Income tax expense from continuing operations		<u>716</u>	<u>752</u>
Income tax benefit from discontinued operations	8	<u>3,490</u>	<u>(91)</u>
Total income tax expense/(benefit)		<u>4,206</u>	<u>661</u>

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

Accounting profit before tax	2,266	3,349
At the statutory income tax rate of 30%	681	1,005
Effect of tax rates in foreign jurisdictions	(99)	(372)
Non deductible expenses:	121	91
Overseas tax losses not recognised/(recognised)	10	3
Adjustments in respect of prior periods	3	25
Income tax expense from continuing operations	<u>716</u>	<u>752</u>

Income tax recognised in other comprehensive income and equity

Cash flow hedges	-	(24)
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THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	6 months to June 2014 \$000	12 months to December 2013 \$000
7. Income Tax (continued)		
Deferred tax asset – continuing operations		
Accrued expenses	65	33
Employee entitlements	70	108
Equity raising costs	248	260
Borrowing costs	13	23
Plant & equipment	63	64
Intangible assets	736	738
Investment in subsidiaries	-	4,437
Total	<u>1,195</u>	<u>5,663</u>
Deferred tax liability – continuing operations		
Intangible assets	<u>853</u>	<u>853</u>
Total	<u>853</u>	<u>853</u>
Net deferred tax asset for UK	61	66
Net deferred tax asset for Australia	<u>281</u>	<u>4,744</u>
Net deferred tax asset	<u>342</u>	<u>4,810</u>

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

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

Tax Payable

Current	<u>100</u>	<u>4,520</u>
	<u>100</u>	<u>4,520</u>

The current tax liability is recognised for income tax payable in respect of all periods to date.

The current tax liability for 31 December 2013 included the estimated capital gains tax liability of \$4.4m arising on the sale of the Australian business for which a corresponding deferred tax asset was recognised. The actual capital gains tax liability was \$3.2m.

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8. Discontinued operations

On 12 December 2013, the Group announced that it had entered into an agreement to sell its Australian and New Zealand business to FlexiGroup. As set out in Note 11, settlement for the sale occurred on 31 January 2014.

The Australian and New Zealand business was classified as held-for-sale as at 31 December 2013. The balance sheet of the disposal group held for sale as at 31 December 2013 is presented in Note 11.

	Notes	6 Months to June 2014 \$000	12 Months to December 2013 \$000
(a) Results of discontinued operations			
Total revenue		1,536	18,758
Expenses		(1,648)	(19,137)
Loss from operating activities		(112)	(379)
Income tax benefit/(expense)		(27)	91
Loss from operating activities, net of tax		(139)	(288)
Gain on sale of discontinued operation		15,721	-
Costs associated with sale of discontinued operation		(2,332)	-
Tax on gain on sale of discontinued operation		(3,463)	-
Profit/(loss) for the period		9,787	(288)
(b) Cash flows from/(used in) discontinued operations			
Net cash used in operating activities		292	325
Net cash from investing activities		(88)	(899)
Net cash from financing activities		212	(80)
Net cash flow for the period		416	(654)
Earnings per share – discontinued operations			
Basic (cents per share)	28	6.09	(0.18)
Diluted (cents per share)	28	6.05	(0.18)

Cumulative income or expense included in other comprehensive income

The cumulative income or expense included in other comprehensive income relating to the disposal group is as follows:

Effective portion of changes in fair value of cash flow hedges, net of tax	45	45
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THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8. Discontinued operations (continued)

(c) Effect of disposal on the financial position of the Group

	30 June 2014
	\$000
Cash and cash equivalents	13,676
Trade and other receivables	1,185
Loan and lease receivables	46,001
Plant and equipment	432
Intangible assets	4,216
Deferred tax assets	1,545
Trade and other payables	(3,393)
Other interest bearing liabilities	(36,592)
Deferred tax liabilities	(479)
Net assets disposed of	<u>26,591</u>

	30 June 2014	31 December
	\$000	2013
		\$000
9. Other Current Assets		
Prepayments	2,795	2,614
Inventories	1,185	848
Sundry debtors	1,108	340
	<u>5,088</u>	<u>3,802</u>

10. Other Non-Current Assets

Insurance prepayments	1,672	1,747
Deposits held by funders (i)	3,786	4,937
	<u>5,458</u>	<u>6,684</u>

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

11. Disposal Group Held for Sale

On 12 December 2013, the Group announced that it had entered into an agreement to sell its Australian and New Zealand business to FlexiGroup as mentioned in Note 8. Accordingly, these were classified as held for sale as at 31 December 2013. The sale was completed on 31 January 2014 for gross consideration of \$42.4m.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. Disposal Group Held for Sale (continued)

Assets and liabilities of disposal group held for sale

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

	31 December 2013 \$000
Cash and cash equivalents	11,983
Trade and other receivables	1,353
Loan and lease receivables	47,370
Plant and equipment	448
Intangible assets	4,311
Deferred tax assets	1,151
Tax receivable	1
Assets held for sale	66,617
Trade and other payables	4,025
Other interest bearing liabilities	37,083
Liabilities held for sale	41,108

12. Plant and Equipment

	Notes	Plant & Equipment \$000	Lease equipment & software \$000	Total \$000
Gross Carrying Amount				
Cost or deemed cost				
Balance at 1 January 2013		2,169	1,221	3,390
Effect of movement in exchange rate		25	-	25
Additions		176	54	230
Disposals		(37)	(10)	(47)
Transfer to held for sale	11	(465)	(1,192)	(1,657)
Balance at 31 December 2013		1,868	73	1,941
Effect of movement in exchange rate		(77)	-	(77)
Additions		178	-	178
Balance at 30 June 2014		1,969	73	2,042
Accumulated Depreciation				
Balance at 1 January 2013		(1,849)	(655)	(2,504)
Effect of movement in exchange rate		-	-	-
Disposals		35	8	43
Depreciation expense		(246)	(288)	(534)
Transfer to held for sale	11	347	862	1,209
Balance at 31 December 2013		(1,713)	(73)	(1,786)
Effect of movement in exchange rate		73	-	73
Depreciation expense		(93)	-	(93)
Balance at 30 June 2014		(1,733)	(73)	(1,806)
Net Book Value				
At 31 December 2013		155	-	155
At 30 June 2014		236	-	236

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Intangible Assets

	Contract rights \$000	Software \$000	Distribution network \$000	Intellectual Property \$000	Inertia Contracts \$000	Total \$000
Gross carrying amount						
At cost						
Balance at 1 January 2013	6,514	6,668	421	642	8,273	22,518
Additions	659	747	-	-	5,293	6,699
Disposals/transfer to inventory	(6)	-	-	-	(2,007)	(2,013)
Effect of movement in exchange rate	158	-	77	-	1,101	1,336
Transfers	(52)	54	-	-	-	2
Transfer to assets held for sale	(5,694)	(7,421)	-	-	-	(13,115)
Balance at 31 December 2013	1,579	48	498	642	12,660	15,427
Additions	170	138	-	-	2,099	2,407
Disposals/transfer to inventory	-	-	-	-	(1,929)	(1,929)
Effect of movement in exchange rate	(34)	-	(9)	-	(235)	(278)
Balance at 30 June 2014	1,715	186	489	642	12,595	15,627
Accumulated amortisation and impairment						
Balance at 1 January 2013	(3,729)	(3,540)	(420)	(401)	(348)	(8,438)
Amortisation expense	(1,243)	(1,208)	-	(32)	-	(2,483)
Effect of movement in exchange rate	(148)	-	(77)	-	(138)	(363)
Impairment loss (i)	-	-	-	-	(629)	(629)
Transfers	27	(27)	-	-	-	-
Transfer to assets held for sale	4,077	4,727	-	-	-	8,804
Balance at 31 December 2013	(1,016)	(48)	(497)	(433)	(1,115)	(3,109)
Amortisation expense	(158)	(7)	-	(16)	-	(181)
Effect of movement in exchange rate	25	-	9	-	24	58
Impairment loss (i)	-	-	-	-	(395)	(395)
Balance at 30 June 2014	(1,149)	(55)	(488)	(449)	(1,486)	(3,627)
Net book value						
At 31 December 2013	563	-	1	209	11,545	12,318
At 30 June 2014	566	131	1	193	11,109	12,000

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

Inertia contract assets acquired are measured at fair value based on the discounted cash flows expected to be derived from the sale or hire of the assets at the end of the term. This measurement inherently introduces estimation uncertainty. The Group continually assesses current inertia proceeds and includes these in the estimation of inertia assets acquired. As such the fair value measurement for inertia contract assets has been categorised as Level 3 fair value.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Intangible Assets (continued)

The following tables show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p>The Group recognises an intangible asset arising if it has the unconditional contractual right to receive income arising from equipment and rights to the hiring agreement at the end of term. This inertia asset is measured at fair value at the inception of the hiring agreement, and is based on discounted cash flows expected to be derived from the sale or hire of the asset at the end of the minimum term. Subsequent to initial recognition the intangible asset is measured at cost.</p> <p>During the hiring term the valuation is impaired for any assets that have been written off.</p> <p>At the end of the hiring term the intangible asset is derecognised and the group recognises the equipment as inventory at the corresponding value.</p>	<p>The fair value is based on current levels of return (25%-30%) less an allowance for cancellations (10%-30%) and expected costs (5%-10%) of realization.</p> <p>The discount rate applied to the fair value is 13.21%.</p>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Expected sale value was higher (lower) • Expected secondary hire term was longer (shorter) • Expected cancellations/bad debts were lower (higher) • Expected realization costs were lower (higher) • Discount rate derived from group cost of capital was lower (higher)

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		% of Equity	
		2014	2013
14. Interest in Subsidiaries			
Interest in Subsidiaries	Country of Incorporation		
RentSmart Limited	UK	100	100
RentSmart Pty Ltd*	Australia	-	100
RentSmart (NZ) Pty Ltd*	New Zealand	-	100
RentSmart Servicing Pty Ltd*	Australia	-	100
RentSmart Unit Trust*	Australia	-	100
SmartCheck Finance Spain SL	Spain	100	100
SmartCheck Ltd	UK	100	100
SmartCheck Pty Ltd*	Australia	-	100
SmartPlan Spain SL	Spain	100	100
ThinkSmart Employee Share Trust	Australia	100	100
ThinkSmart Europe Ltd	UK	100	100
ThinkSmart Finance Ltd*	Australia	-	100
ThinkSmart Financial Services Ltd	UK	100	100
ThinkSmart Inc	USA	100	100
ThinkSmart Insurance Services Administration Ltd	UK	100	100
ThinkSmart Italy Srl	Italy	100	100
ThinkSmart LTI Pty Limited	Australia	100	100
ThinkSmart Trust*	Australia	-	100
ThinkSmart UK Ltd	UK	100	100

* The Group disposed of these entities as at 31 January 2014 as disclosed in Note 8.

	30 June 2014	31 December
	\$000	2013
		\$000
15. Goodwill		
Balance at beginning of financial period	4,295	3,627
Effect of movement in exchange rate	(79)	668
Balance at end of financial period	4,216	4,295

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the UK segment as disclosed in Note 22, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The goodwill arose on the acquisition of RentSmart Limited.

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

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

- Cash flows were projected based on the forecast operating results for the 6 months to 31 December 2014 and management estimates for 2015 to 2018.
- A post tax discount rate of 8.72% (11.18% pre tax) was applied in determining the recoverable amount of the unit.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	30 June 2014	31 December
	\$000	2013
		\$000
16. Trade and Other Payables, and Provisions		
Trade and other payables	1,059	475
GST/VAT Payable	575	548
Other accrued expenses	1,613	1,241
	<u>3,247</u>	<u>2,264</u>
Provisions		
Annual leave	77	137
Long service leave	155	222
Other	1	1
	<u>233</u>	<u>360</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

		30 June 2014	31 December
	Notes	\$000	2013
			\$000
17. Deferred Service Income			
Balance at 1 January		5,533	4,798
Effect of movement in exchange rate		(104)	(124)
Intangible inertia assets acquired	13	2,099	5,293
Reversal due to intangible asset impairment		(34)	(374)
Recognised in Consolidated Statement of Profit and Loss	6(a)	<u>(2,519)</u>	<u>(4,060)</u>
		<u>4,975</u>	<u>5,533</u>
Deferred service income to be recognised within 12 months		3,354	3,843
Deferred service income to be recognised in greater than 12 months		<u>1,621</u>	<u>1,690</u>
		<u>4,975</u>	<u>5,533</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	30 June 2014	31 December
	\$000	2013
		\$000
18. Financing facilities		
Corporate financing facilities		
Secured bank overdraft facility reviewed annually and payable at call:		
- amount used	-	-
- amount unused	-	921
	<u>-</u>	<u>921</u>
Committed cash advance facility/Secured bill acceptance facility:		
- amount used	-	-
- amount unused	-	5,000
	<u>-</u>	<u>5,000</u>
Other finance facilities (business credit card, payroll facility, term loan, multi-option facility):		
- amount used	10	21
- amount unused	87	25
	<u>97</u>	<u>46</u>
Total corporate financing facility	<u>97</u>	<u>5,967</u>

The committed cash advance facility was terminated on 31 January 2014 in connection with the sale of the Australian and New Zealand operations as set out in Note 8. New corporate facilities for business credit cards, payment processing and foreign exchange derivatives were put into place simultaneously, secured by cash on deposit.

	30 June 2014	31 December		
	\$000	2013		
		\$000		
19. Issued Capital				
(a) Issued and paid up capital				
158,734,857 Ordinary Shares fully paid (2013: 162,307,097)	<u>48,096</u>	<u>48,091</u>		
	2014	2014	2013	2013
	Number	\$000	Number	\$000
<i>Fully Paid Ordinary Shares</i>				
Balance at beginning of the financial period	162,307,097	48,091	159,163,764	48,073
Issue of new shares for employee loan-funded share plan	-	-	3,043,333	-
Issue of new shares for employee share-based payment	-	-	100,000	18
Proceeds from exercise of employee loan-funded share plan	-	234	-	-
Cancellation of shares through buyback	(572,981)	(229)	-	-
Cancellation employee loan-funded shares	(2,999,259)	-	-	-
Balance at end of the financial period	<u>158,734,857</u>	<u>48,096</u>	<u>162,307,097</u>	<u>48,091</u>

During the period no employee share options or loan-funded shares were exercised (2013: nil).

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

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

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

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

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

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

Options issued in previous periods:

- 400,000 options over ordinary shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 9 August 2017. Vesting of the options is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of options will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
 - Tranche 2: 25% of options will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.
- 3,033,333 loan-funded shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 9 August 2017. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
 - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.

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

- 750,000 options over ordinary shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 4 July 2016 until 3 July 2018. Vesting of the options is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of options will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
 - Tranche 2: 25% of options will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.
- 3,243,333 loan-funded shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 4 July 2016 until 3 July 2018. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
 - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.

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

- 1,000,000 (series 1) and 1,000,000 (series 2) options over ordinary shares were issued 11 June 2014 and exercisable at \$0.3448 and \$0.4195 respectively, vesting and exercisable on 11 June 2017 until 10 June 2019. Vesting of the options is subject to achievement of the following performance conditions:

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

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

Series 1

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

Series 2

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

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

Below are options and loan-funded shares issued in 2013 and 2014:

Options series issued in 2014	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee options	1,000,000	11/06/2014	11 Jun 2017 to 9 Jun 2019	\$0.3448	\$0.135-\$0.158
Employee options	1,000,000	11/06/2014	11 Jun 2017 to 9 Jun 2019	\$0.4195	\$0.104-\$0.131
Loan-funded shares issued in 2013	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee loan-funded shares	3,243,333	4/07/2013	4 Jul 2016 to 3 Jul 2018	\$0.2652	\$0.098-\$0.118
Options series issued in 2013	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee options	750,000	4/07/2013	4 Jul 2016 to 3 Jul 2018	\$0.2652	\$0.098-\$0.118
Loan-funded shares issued in 2012	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee loan-funded shares	3,033,333	10/08/2012	10 Aug 2015 to 9 Aug 2017	\$0.1923	\$0.02-\$0.06
Options series issued in 2012	Number	Grant date	Exercise period	Exercise price	Fair value at grant date
Employee options	400,000	10/08/2012	10 Aug 2015 to 9 Aug 2017	\$0.1923	\$0.02-\$0.06

Measurement of fair values

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

The weighted average fair value of the share options granted in 2014 is \$0.129 (2013: \$0.106). Options and loan-funded shares were priced using a monte-carlo pricing model. Expected volatility is based on the historic volatility of the market price of the Company's share and the mean reversion tendency of volatilities.

Other measurement inputs include share price on measurement date, exercise price of the instrument, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

THINKSMART LIMITED
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19. Issued Capital (continued)

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

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

	Employee options and loan-funded shares 2014	Employee options and loan-funded shares 2013	Employee options and loan-funded shares 2012
Grant date	11/06/2014	4/07/2013	10/08/2012
Fair value at grant date	\$0.104-\$0.158	\$0.098-\$0.118	\$0.02-\$0.06
Grant date share price	\$0.375	\$0.27	\$0.19
Exercise price	\$0.3448/\$0.4195	\$0.2652	\$0.1923
Expected volatility	55%	55%	50%
Option/loan share life	4 years	4 years	4 years
Dividend yield	1.6%	0%	2.14%
Risk-free interest rate	3.1%	2.99%	2.5%

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:

	2014		2013	
	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	7,126,666	\$0.23	9,200,000	\$0.61
Granted during the financial period	2,000,000	\$0.38	3,993,333	\$0.27
Forfeited during the financial period	(4,076,666)	\$0.23	(5,265,000)	\$0.76
Expired during the financial period	-	-	(801,667)	\$0.62
Balance at the end of financial period	<u>5,050,000</u>	<u>\$0.29</u>	<u>7,126,666</u>	<u>\$0.23</u>
Exercisable at end of the financial period	-	-	-	-

The options and loan-funded shares outstanding at 30 June 2014 have an exercise price in the range of \$0.1923 to \$0.4195 (2013: \$0.1923 to \$0.2652) and a weighted average contractual life of 4.15 years (2013: 4.12 years).

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

	6 months to 30 June 2014 \$000	12 months to 31 December 2013 \$000
Share options granted in 2011 – equity settled	-	(96)
Shares as remuneration granted in 2010, 2011 and 2012 – equity settled	28	99
Share options/loan-funded shares granted in 2012 – equity settled	(30)	21
Share options/loan-funded shares granted in 2013 – equity settled	<u>1</u>	<u>62</u>
Total expense recognised as employee costs	<u>(1)</u>	<u>86</u>
Less discontinued operations	<u>(41)</u>	<u>4</u>
Total expense recognised from continuing operations	<u>40</u>	<u>82</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

(b)(ii) Share compensation – employee shares

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

	Number of shares granted	Grant date	Fair value at grant date (\$)	Vesting period	Number of shares vested during 2014
Executives					
A Baum	125,000	1/09/2011	0.52	3 years	100%
A Baum	125,000	3/10/2012	0.18	3 years	100%

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

These shares were issued to A Baum. The shares are ordinary shares in the Company and ordinarily would have vested upon completion of a 3-year service period from the date of issue. As a result of Mr Baum's role being made redundant during 2014, and under the terms of the grant, he is entitled to retain these shares and they are released from escrow at that point.

The fair value of employee shares provided as remuneration is measured using the closing share price on the date the shares are granted. The fair value of these shares is recorded in the profit and loss on a straight line basis across their vesting term, with \$0.028m (2013: \$0.099m) expensed during the period.

(c) Dividends

Dividends paid or declared by the Company to members since the end of the previous financial period were.

	Cents per share	Total amount	Franked/ unfranked	Date paid
Special dividend	3.6 cents	\$5,843,055	Fully franked	19 February 2014

The company received \$163,002 of the above special dividend back in relation to employee loan funded shares and the net amount of \$5,680,054 is recorded in the Consolidated Statement of Changes in Equity and Consolidated Cash Flow.

(d) Franking credits

	30 June 2014 \$000	31 Dec 2013 \$000
Franking credit account balance as at the beginning of the financial period at a tax rate of 30% (2012: 30%)	5,733	3,063
Franking credits attached to the dividend paid during the financial period	(2,504)	-
Franking credits from the payment of income tax paid and payable as at the end of the financial period	(344)	2,670
Franking credit account balance as at the end of the financial period at a tax rate of 30% (2012: 30%)	2,885	5,733

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group is allowed to assume the relevant subsidiaries' franking credits. As at 30 June 2014, the subsidiaries have no franking credits for the benefit of the Company (2013: nil).

THINKSMART LIMITED
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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, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	as at 30 June 2014 \$000	as at 31 Dec 2013 \$000
Reconciliation of cash and cash equivalents		
Cash balance comprises:		
- Available cash and cash equivalents	38,498	7,375
- Restricted cash	572	194
	<u>39,070</u>	<u>7,569</u>

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 25.

	6 months to 30 June 2014 \$000	12 months to 31 Dec 2013 \$000
(b) Reconciliation of the profit/(loss) for the period to net cash flows from operating activities:		
Profit after tax	11,337	2,309
Add back non-cash and non-operating items:		
Depreciation	108	380
Amortisation	363	2,482
Impairment losses on finance lease receivables	64	2,323
Foreign currency loss/(gain) unrealised	(249)	(49)
Provision for employee entitlements	5	244
Equity settled share-based payment	2	57
(Profit) on disposal of discontinued operation	(15,721)	-
Costs associated with disposal of discontinued operation	2,332	-
Income tax paid on discontinued operations	3,206	-
Other non-cash items	278	-
(Increase)/decrease in assets:		
Trade receivables, deposits held with funders and other movements in lease assets	(1,013)	(3,290)
Prepayments	837	(28)
Deferred tax asset	(24)	(2,653)
Other assets	(533)	27
Rental asset inventory	715	(81)
Increase/(decrease) in liabilities:		
Trade and other creditors	843	(2,533)
Provision for income tax	119	4,039
Deferred tax liability	(7)	(1,500)
Other payables	(126)	(189)
Net cash from operating activities	<u>2,536</u>	<u>1,538</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

21. Leases and Hire Purchase Obligations

Operating leases – leasing arrangements

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

	June 2014	December 2013
	\$000	\$000
Non-cancellable operating lease payments:		
No later than 1 year	173	448
Later than 1 year and not later than 5 years	693	383
More than 5 years	635	-
	<u>1,501</u>	<u>831</u>

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

22. Segment Information

The Group has three reportable segments which comprise the Group's two core business units (UK and its discontinued segment, Australia), with the "other" segment presented composing low volume territories. The head office corporate function composes the reconciliation between the two continuing reportable segments and the Group, given that there is no inter-segment revenue. The business units offer predominantly similar products and services, however have separate Executive structures and separate operational teams.

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

UK:

- ThinkSmart Europe Ltd
- RentSmart Limited
- ThinkSmart Insurance Services Administration Ltd

Other:

- SmartCheck Finance Spain SL
- ThinkSmart Inc (USA)
- ThinkSmart Italy Srl

Corporate:

- ThinkSmart Limited

Discontinued operations - Australia:

- ThinkSmart Finance Ltd
- ThinkSmart Trust
- RentSmart Servicing Pty Ltd
- RentSmart Pty Ltd
- RentSmart (NZ) Pty Ltd

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Segment Information (continued)

Operating Segments

Information about reportable segments

For the period ended:	UK		Other Territories		Corporate		Total		Discontinued operations*	
	June	December	June	December	June	December	June	December	June	December
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue	9,709	16,574	14	141	438	22	10,161	16,737	1,536	18,751
Other revenue	1,300	2,196	-	-	-	-	1,300	2,196	15,721	7
Total revenue	11,009	18,770	14	141	438	22	11,461	18,933	17,257	18,758
Indirect customer acquisition costs	(3,804)	(4,935)	-	(2)	(1)	(6)	(3,805)	(4,943)	(89)	(1,361)
Operating expenses	(3,149)	(5,377)	(50)	(100)	(1,761)	(4,446)	(4,960)	(9,923)	(1,105)	(10,145)
Depreciation and amortisation	(241)	(418)	-	(45)	(34)	-	(275)	(463)	(197)	(2,399)
Impairment losses (Note 6(e))	(155)	(255)	-	-	-	-	(155)	(255)	(62)	(2,338)
Interest expense	-	-	-	-	-	-	-	-	(195)	(2,894)
Cost associated with sale of discontinued operations	-	-	-	-	-	-	-	-	(2,332)	-
Reportable segment profit/(loss) before income tax	3,660	7,785	(36)	(6)	(1,358)	(4,430)	2,266	3,349	13,277	(379)
Reportable segment current assets	12,777	9,293	152	2,023	32,321	1,209	45,250	12,525	-	66,617
Reportable segment non-current assets	21,736	16,053	-	7,347	516	4,862	22,252	28,262	-	-
Reportable segment liabilities	8,109	7,031	33	1,537	413	4,109	8,555	12,677	-	41,108
Capital expenditure	350	570	-	-	136	-	486	570	-	1,066

* See Notes 8 and 11

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Segment Information (continued)

Major customer

Revenues from the Group's funding partners represent \$2.2m (2013: \$5.677m) of the Group's total revenue.

23. Remuneration of Auditors

	6 Months to June 2014	12 Months to December 2013
	\$	\$
Audit and review services:		
<i>Auditors of the Company:</i>		
Audit and review of financial reports (Australia)	50,000	234,500
Audit and review of financial reports (Overseas)	99,440	100,111
Assurance services associated with disposal of Australian business	57,946	-
Other regulatory services*	20,508	9,500
	227,894	344,111
Services other than statutory audit:		
Tax compliance and advisory services	29,135	138,081
Advisory services	23,766	33,000
	52,901	171,081

*relates to statutory accounting requirements within Spain and Italy

The Group's auditors are KPMG.

24. Commitments and Contingent Liabilities

Under the terms of the UK current funding agreement with Secure Trust Bank, the group is obliged to purchase delinquent leases from the funder at the funded amount. As at 30 June 2014, the total funded amount of all leases funded by the funder is \$43.606m (2013: \$49.648m). The group has entered into a Credit Default Swap ("CDS") with STB for which it has provided a deposit of \$7.401m (2013: \$8.252m) as collateral for the obligation under the CDS. The group has provided \$3.617m (2013: \$3.197m) being its estimate of the funded amount of these leases that are likely to become delinquent in the future. The group estimates this amount based on historical loss experience for assets with similar characteristics.

The total balance of deposits recognised with funders, net of associated provisions and financial guarantee contracts is \$3.784m (2013: \$5.055m).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments

Financial instruments included in the below disclosures do not include financial assets and liabilities classified as held for sale.

(a) Interest rate risk

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

	Carrying amount	
	June 2014	December 2013
	\$000	\$000
Variable rate instruments		
Cash and cash equivalents	39,070	7,569
Deposits held by funder (non-current)	3,786	4,937
Net financial assets	42,856	12,506

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 (2013: 1% increase \$0.125m, 1% decrease \$0.125m). This analysis assumes that all other factors remain constant including foreign currency rates.

	Profit or Loss	
	Increase	Decrease
	1%	1%
	\$000	\$000
Variable rate instruments	429	(429)
Net profit sensitivity	429	(429)

(b) Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities recorded in the financial statements are not materially different to their fair values.

Fair value hierarchy

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

The different levels have been defined as follows:

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

The only financial liability of the Group measured at fair value comprised of interest rate swaps that were used for hedging, classified as level 2, which was included within liabilities held for sale (see Note 11).

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.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (continued)

(c) Credit risk management

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

	Note	June 2014 \$000	December 2013 \$000
Cash and cash equivalents	20(a)	39,070	7,569
Trade receivables		1,153	1,191
Prepayments (current)		2,038	2,107
Sundry debtors	9	1,108	340
Other non-current assets	10	5,458	6,684
		<u>48,827</u>	<u>17,891</u>

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

	June 2014 \$000	December 2013 \$000
Australia	32,213	1,100
UK	16,346	16,501
Other	268	290
	<u>48,827</u>	<u>17,891</u>

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

	June 2014 \$000	December 2013 \$000
Banks (i)	39,070	7,569
Funders	3,786	5,029
Insurance partners (ii)	3,711	3,855
Others	2,260	1,438
	<u>48,827</u>	<u>17,891</u>

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

(ii) In 2014, 100% (2013: 88%) of the total 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.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (continued)

(c) Credit risk management (continued)

Trade receivables

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

	Gross 2014 \$000	Impairment 2014 \$000	Gross 2013 \$000	Impairment 2013 \$000
Not past due	378	-	-	-
Past due 0-30 days	711	-	1,104	-
Past due 31-120 days	59	59	70	28
Past due 121-365 days	5	-	17	9
	<u>1,153</u>	<u>59</u>	<u>1,191</u>	<u>37</u>

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

	June 2014 \$000	December 2013 \$000
Balance at 1 January	37	87
Impairment loss recognised	63	118
Bad debt written off	(36)	(147)
Effect of exchange rate movement	(5)	8
Transfer to assets held for sale	-	(29)
Balance at 31 December	<u>59</u>	<u>37</u>

Trade receivables are reviewed and considered for impairment on a periodic basis, based on the number of days outstanding and number of payments in arrears.

(d) Currency risk management

Exposure to currency risk

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

	30 June 2014			
	GBP £000	EUR €000	NZD \$000	USD \$000
Cash and cash equivalents	3,789	98	-	5
Trade receivables	1,138	1	-	-
Trade and other payables	(1,572)	(21)	-	3
Net exposure	<u>3,355</u>	<u>78</u>	<u>-</u>	<u>8</u>

	31 December 2013			
	GBP £000	EUR €000	NZD \$000	USD \$000
Cash and cash equivalents	3,407	120	-	7
Trade receivables	746	16	-	-
Trade and other payables	(1,107)	(37)	-	(3)
Net exposure	<u>3,046</u>	<u>99</u>	<u>-</u>	<u>4</u>

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (continued)

(d) Currency risk management (continued)

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
AUD				
EUR	0.8214	0.7293	0.8009	0.6485
GBP	0.5992	0.6146	0.5872	0.5429
USD	1.8245	0.9679	1.8080	0.8948
NZD	NA	1.1795	NA	1.0879

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013:

	Equity \$000	Profit or loss \$000
30 June 2014		
EUR	115	4
GBP	(2,433)	(345)
USD	-	-
NZD	-	-
31 December 2013		
EUR	(16)	(7)
GBP	(2,570)	(626)
USD	-	(221)
NZD	(2)	4

A 10% weakening of the Australian dollar against the above currencies at 30 June would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Liquidity risk management

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

Non-derivatives	Carrying Amount \$000	Contractual cash flow \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000
30 June 2014					
Trade and other payables	3,247	(3,247)	(3,247)	-	-
	3,247	(3,247)	(3,247)		
31 December 2013					
Trade and other payables	2,264	(2,264)	(2,264)	-	-
	2,264	(2,264)	(2,264)	-	-

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. 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 Director and Chief Executive Officer

K Jones

Non-Executive Directors

D Griffiths (deputy Chairman)

S Penglis

F de Vicente

Executives

G Halton (Group Chief Financial Officer)

A Baum (Former Group Chief Operating Officer) (Resigned 31/3/14)

G Varma (Former Group Chief Information Officer) (Resigned 31/3/14)

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

	6 Months to June 2014	12 Months to Dec 2013
	\$	\$
Short-term employee benefits	969,070	2,073,112
Post-employment benefits	403,788	118,086
Other long-term benefits	3,114	13,794
Share-based payments	60,564	56,450
	<u>1,436,536</u>	<u>2,261,442</u>

27. Subsequent Events

There has not arisen, in the interval between the end of the financial period and the date of this report, any subsequent events.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Earnings per Share

	6 months to 30 June 2014			12 months to 31 December 2013		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Profit/(loss) after tax attributable to ordinary shareholders (basic and diluted)	1,550	9,787	11,337	2,597	(288)	2,309
				2014	2013	
				Number	Number	
Weighted average number of ordinary shares (basic)				160,688,734	159,259,106	
Weighted average number of ordinary shares (diluted)				161,844,290	159,919,271	
				30 June 2014	31 December 2013	
Earnings per share						
Basic earnings/(loss) per share (cents)				7.06	1.45	
Diluted earnings/(loss) per share (cents)				7.01	1.44	
Earnings per share from continuing operations						
Basic earnings/(loss) per share (cents)				0.97	1.63	
Diluted earnings/(loss) per share (cents)				0.96	1.62	
Earnings per share from discontinued operations						
Basic earnings/(loss) per share (cents)				6.09	(0.18)	
Diluted earnings/(loss) per share (cents)				6.05	(0.18)	

At 30 June 2014, 105,556 (2013: nil) number of shares were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

29. Parent Entity Disclosures

As at, and throughout, the financial period ending 30 June 2014, the parent entity of the Group was ThinkSmart Limited.

	6 Months to 30 June 2014 \$000	12 Months to 31 December 2013 \$000
Result of parent entity		
(Loss)/profit for the period	(4,809)	1,164
Other comprehensive income	26	-
Total comprehensive (loss)/profit for the period	<u>(4,783)</u>	<u>1,164</u>
Financial position of parent entity at period end		
Current assets	<u>32,320</u>	<u>1,209</u>
Total assets	<u>47,283</u>	<u>53,101</u>
Current liabilities	<u>413</u>	<u>4,109</u>
Total liabilities	<u>413</u>	<u>4,109</u>
Total equity of the parent entity comprising of:		
Share capital	48,096	48,091
Share-based payment reserve	1,140	1,118
Retained earnings	<u>(2,364)</u>	<u>(217)</u>
Total equity	<u>46,872</u>	<u>48,992</u>

Parent entity contingencies

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

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

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



Independent auditor's report to the members of ThinkSmart Limited

Report on the financial report

We have audited the accompanying financial report of ThinkSmart Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the period end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the six month period ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 18 of the directors' report for the six month period ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of ThinkSmart Limited for the six month period ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Matthew Beevers
Partner

Perth

26 August 2014

THINKSMART LIMITED CORPORATE INFORMATION

ABN 24 092 319 698

Directors

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

Company Secretary

Neil Hackett

Registered and Principal Office

45 Ventnor Avenue
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Australia
Phone: +61 8 9389 4403

Share Register

Computershare Investor Services Pty Limited
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Phone: 1300 850 505

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

Solicitors

Herbert Smith Freehills
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Perth WA 6000
Australia

Auditors

KPMG
235 St Georges Terrace
Perth WA 6000
Australia

Bankers

Westpac Banking Corporation
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Perth WA 6000
Australia