



SUPERIOR
PERFORMANCE
in retail finance

THINKSMART LIMITED
ANNUAL REPORT
2016

ThinkSmart is a financial technology company and leader in digital, paperless, retail point of sale finance in the UK, since 2003.

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HIGHLIGHTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2015

- \$4.4m Group Operating NPAT (excluding non-operating strategic review and advisory expenses) for the year up 27% on same period last year (with avg. FX rate of 1.95 AUD:GBP in H2)
- \$0.6m statutory Group NPAT for the year after \$3.8m of non-operating strategic review and advisory expenses
- 69% growth in Operating EPS – 4.62 cents earnings per share (excluding non-operating expenses) up 1.89 cents on last year
- \$8.7m Cash assets at 30 June 2016 with strong operating cash generation of \$5.4m in the year
- 29% growth in UK Segment NPAT to \$3.9m benefitting from reduced funding costs and improvements in bad debt performance on prior year vintages
- 12% growth in UK revenue on a constant FX basis to \$27.3m despite challenging second half volumes, with unanticipated delays in the launch of some key initiatives and new products
- \$45.1m total assets under management and 57k active customers at 30 June 2016
- Lease receivables grew by 67% to \$7.8m as the lease book matures
- Fully franked dividends of 3.5c and 1.1c per share were paid in September 2015 and March 2016 respectively. No further dividend payable for the 2016 financial year
- As a result of the strategic review, ThinkSmart is planning to migrate its listing from ASX to the AIM market of the London Stock Exchange by early November. The proposed transaction is subject to shareholder and regulatory approvals to achieve the following:
 - Placement of 20m shares to a fund managed by Henderson Global Investors at a price of £0.25 per share (£5m)
 - Off market tender buy-back of up to 10m shares at a price range of \$0.38 to \$0.55 per share
 - Apply to be admitted to AIM and delist from ASX
- ThinkSmart has extended its contract with the market leading Dixons Carphone Group, which builds on the 13-year mutually beneficial partnership. The agreement extends ThinkSmart's B2B (SmartPlan) and B2C (Upgrade Anytime) contract with Dixons Carphone, to at least January 2019
- A new exclusive 5 year agreement has been signed with Carphone Warehouse to launch a leasing proposition on 'Mobiles' in Q4 2016. In excess of 50k and 90k new customers are targeted for years 1 and 2 respectively
- The Multi-funder Platform is now fully operational. The £60m STB funding facility has now been extended to July 2018 on improved terms from 1 July 2015, complementing the £10m funding facility signed with Santander in 2014
- ThinkSmart has now been approved by the Financial Conduct Authority to operate in the UK consumer credit market, complementing its existing consumer leasing permissions
- A new multi-leasing customer account proposition has been developed. The account facilitates a credit limit which enables the lease of multiple products over time, without additional applications. The new account proposition was launched with Dixons in July 2016
- Significant reinvestment to enhance unique sector leading software and processing IP together with paperless transactions with online basket integration and mobile application is now available
- Focussing on the release and distribution of leading integrated online basket and mobile finance solutions for retailers. Basket integration with PC World Business is now live.
- Optimisation of credit scoring and decision engine capabilities to maximise volumes and manage risk
- The strategic focus of the business for 2016-17 is:
 - Significant growth in active customer base
 - Maximise margins through efficient 'on balance sheet' funding and continued systemic bad debt management
 - Improvements in operational leverage benefitting from scale reduction in per unit operating costs
 - New mobile leasing product targeted to achieve immediate and significant volume growth, with profit spread across the term of each contract through lease accounting, and increasing over time through the high level of anticipated repeats

EXECUTIVE CHAIRMAN REPORT

Welcome to all our shareholders reading our 2016 Annual Report.

The 2016 financial year has continued to be a successful period in shaping and executing the Group's strategy as reflected in our financial performance.

ThinkSmart is a leading financial technology company providing digital and paperless retail point of sale finance products to both B2B and B2C customer segments via UK national retail distribution, pre-dominantly with the Dixons Carphone Group through a 13-year relationship now extended to 2019. Dixons Carphone plc is Europe's leading specialist electrical and telecommunications retailer and services company, with over 2,300 stores in 9 countries, employing over 40,000 people.

During the year we have continued to invest significantly in our proprietary systems, people, and funding platforms to further leverage our sector leading software and processing IP together with paperless transactions, online basket integration and market innovative new customer account and mobile application products and services. This investment combined with significantly improved and extended funding will help to support the Group strategy of broadening distribution to new sectors, retailers and customers.

The new exclusive 5 year agreement signed with Carphone Warehouse to provide a mobile phone leasing proposition from Q4 2016 will deliver significant volume growth through a new market sector. This will build on the strength of the Dixons Carphone relationship and ensure long term profitability improving over time through a high level of upgrades.

The investment by Henderson as a result of the strategic review is a vote of confidence in ThinkSmart's future, and the Board believes that the migration of ThinkSmart's listing to the UK AIM will achieve the benefits of:

- more closely aligning ThinkSmart's trading market and shareholder base with its operations in the UK;
- raising the profile of ThinkSmart from a commercial and capital markets perspective; and
- providing the potential to access UK equity capital markets for funding ThinkSmart's future development

To ensure we have a Board that reflects the UK focus of the business and the intended migration to AIM, the Board has taken the opportunity to realign accordingly with the majority of Directors being UK based. This will see David Griffiths retiring in August and David Adams joining the Board from October as a Non-Executive Director and assuming the Chair of the Audit Committee.

On admission to AIM, Ned Montarello will become Non-Executive Chairman, Keith Jones will be Non-Executive Director and Deputy Chairman, Gary Halton, existing CFO, will become Executive Director and a new UK based Non-Executive Director will be appointed. Peter Gammell and Fernando de Vicente will continue in their current roles

ThinkSmart remains focused on positioning the business for growth and profitability through the ongoing development and execution of our strategy to build long-term value in the UK through our 3 Pillars of Growth:

1. Organic growth with current and new product with existing partners
2. Diversification in product and market development by extending the model with new distribution, sectors and products, and
3. Investment in strategically aligned businesses with the opportunity to unlock value through synergies and leveraging the platform through products and distribution

We continue to look to build long term, distribution agreements and entrenched partnerships which deliver value for retailers and their customers. Our products are executable throughout today's complex retail channel, creating additional revenue and enhanced margin performance for our retail partners both on and offline.

We strongly believe the UK is the place to be to grow our business. This is supported by Dixons Carphone who have reported that there has been no evidence of a knock to consumer confidence after the UK vote to leave the EU, echoing industry surveys which point to a robust mood among UK shoppers.

ThinkSmart has a strong long term relationship with Dixons, UK's leading electrical retailer and the UK market is nearly three times the size of Australia with 62 million consumers. ThinkSmart has secured access to many of these consumers through its strong relationship with Dixons. ThinkSmart's sector leading intellectual property delivers capability for point of sale financing solutions and facilitates the rapid development of innovative products into other retail sectors allowing us to create financing solutions with various partners at relatively low cost and in rapid timeframes.

The strategic focus of the business for 2016-17 is:

- Significant growth in active customer base
- Maximise margins through efficient 'on balance sheet' funding and continued systemic bad debt management
- Improvements in operational leverage benefiting from scale reduction in per unit operating costs
- New mobile leasing product targeted to achieve immediate and significant volume growth, with profit spread across the term of each contract through lease accounting, and increasing over time through the high level of anticipated repeats

Finally, on behalf of the Board of Directors, we would like to thank all of ThinkSmart's customers, partners, funders and shareholders for their continuing support. We especially want to thank the entire team at ThinkSmart for their ongoing commitment and enthusiasm, and their hard work and contribution in developing and delivering our plans. We look forward to implementing the initiatives ahead for the benefit of all our stakeholders.

Ned Montarello
Executive Chairman

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 12 months ended 30 June 2016, and the auditor’s report there on.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Ned Montarello

Executive Chairman

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 IPO, the business in Australia. In 2010 he led 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.

Fernando de Vicente B. Econ, MBA Bus

Chief Executive Officer

Fernando joined the Board on 7 April 2010 and the Audit and Risk Committee on 18 August 2013. Fernando was then subsequently appointed group Chief Executive Officer from 1 January 2015. 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, a 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.

Keith Jones MBA Bus

Group Strategy and Development Director

Keith joined the Board on 24 May 2013 and was appointed Chief Executive Officer on 1 February 2014 through to 31 December 2014. Keith has since moved to the role of Group Strategy and Development Director from 1 January 2015 whilst at the same time ensuring a smooth hand over with the current CEO, Fernando. 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 fascia’s 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.

THINKSMART LIMITED DIRECTORS' REPORT

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 a Director of the Contemporary Dance Company of Western Australia. He is Chairman of Automotive Holdings Group Limited and Wellard Limited. David is Chair of the Audit and Risk Committee of ThinkSmart.

Peter Gammell (appointed 23 May 2016)

Non-Executive Director

Mr Gammell is a non-executive Director of Seven West Media, was Managing Director and CEO of Seven Group Holdings (2010-2013) and was previously Managing Director of Australian Capital Equity Pty Ltd (1989-2010). Mr Gammell is also Chairman of Octet Finance and former Chairman of Scottish Pacific Business Finance. Between 1984 and 1989 Peter was a director of Castle Cairn (Financial Services) Ltd an investment management company based in Edinburgh, Scotland and a member of IMRO. Also during this time he was a director of Cairn Energy Management Limited and Cairn Energy PLC. Peter is Chair of the Remuneration and Nomination Committee of ThinkSmart.

COMPANY SECRETARY

Neil Hackett

B. Ec, FFin, GAICD (Merit)

Mr Neil Hackett joined ThinkSmart as Company Secretary in 2014. He 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 Non-executive Chairman of Australian Securities Exchange listed entity Ardiden Ltd, Non-executive Director of Azonto Petroleum Limited and Chairman of WestCycle Inc. Neil's experience includes 10 years in the funds management industry and regulatory experience with the ASIC.

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 presents its Operating and Financial Review for the 12 month financial period to 30 June 2016 and this information should be read in conjunction with the financial statements and accompanying notes.

Business model

ThinkSmart is an international finance company, creating differentiation and competitive advantage in 'point of sale' finance. It has an exclusive distribution agreement and partnership with Dixons Carphone Group, 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.

Since the sale of the Australian and New Zealand operations settled on 31 January 2014 the Group has focused on the UK market. The company continues to innovate within this growing market of 65.1 million consumers through new product and system development and new distribution channels whilst further building on the strong relationship it has with Dixons Carphone Group.

THINKSMART LIMITED
DIRECTORS' REPORT

Key financial data

| For the year ending | June 2016 | June 2015 | Variance | Variance |
|---|--------------|--------------|----------|----------|
| | \$000 | \$000 | \$000 | % |
| Total revenue | 27,323 | 24,957 | 2,366 | +9% |
| Indirect customer acquisition costs | (7,535) | (8,290) | 755 | +9% |
| Operating expenses | (11,995) | (10,840) | (1,155) | -11% |
| Depreciation and amortisation | (1,448) | (648) | (800) | -124% |
| Impairment losses | (803) | (512) | (291) | -57% |
| Profit / (loss) before tax and non-operating costs | 5,542 | 4,667 | 875 | +19% |
| Non-operating strategic review and advisory expenses | (3,801) | - | (3,801) | +100% |
| Income tax (expense) / benefit | (1,123) | (1,177) | 54 | +5% |
| Profit / (loss) after tax* | 618 | 3,490 | (2,872) | -82% |

*NPAT excluding non-operating strategic review and advisory expenses is \$4.4m

Summary of results

- Net profit after tax up 27% on prior financial year to \$4.4m, excluding non-operating costs of \$3.8m.
- Total revenue of \$27.3m, up 10% on prior financial year.
- Total expenses of \$21.8m, up 7% on prior financial year, excluding non-operating costs of \$3.8m.
- Operating expenses of \$12m, up 11% on prior financial year.
- Available cash assets of \$8.5m, down 48% on 30 June 2015 position as a result of dividends paid and non-operating costs.
- Earnings per share of 0.65 cents, compared to 2.73 cents for the prior year.
- Earnings per share (excluding non-operating costs) of 4.62 cents, compared to 2.73 cents for the prior year.
- Fully franked dividends at 3.5 cents per share and 1.1 cents per share, paid September 2015 and March 2016 respectively.

Review of operations

Continuing operations – UK

The UK business delivered a profit contribution before intercompany charges of \$8.7m up 15% as a result of improved margin from reduced funding costs and improvements in bad debts combined with a currency translation benefit of a weaker Australian dollar during the financial year.

Overall UK volumes at \$34m were down 18% on prior year mainly as a result of lower repeats on 'Upgrade Anytime' due to the lower Infinity volumes written two years previously. The 'SmartPlan' business lease proposition, delivering a higher margin, has grown volumes by 4%.

UK average transaction values (ATV's) have increased to \$1,614 up 11% on a constant currency basis against same period last year due to a higher proportion of SmartPlan leases. Assets under management (includes off balance sheet leases of \$37.6m) have reduced to \$45.1m down 5% on a constant currency basis against same period last year.

During the year the £60m funding arrangement with STB was extended to July 2018 on improved terms and compliments the £10m 5 year revolving credit facility signed with Santander on 15 December 2014.

Continuing operations – Corporate

Corporate costs continue to fall being \$3.1m for the 12 months to 30 June 2016 (down 7% on prior year).

THINKSMART LIMITED
DIRECTORS' REPORT

Financial position

Summary financial position

| As at | 30 June 2016 \$000 | 30 June 2015 \$000 |
|--|--------------------------|--------------------------|
| Cash and cash equivalents (unrestricted) | 8,537 | 16,396 |
| Cash and cash equivalents (restricted) | 210 | 436 |
| Other assets | 19,591 | 17,508 |
| Goodwill and intangibles | 17,189 | 17,431 |
| Total assets | 45,527 | 51,771 |
| Other liabilities | 13,355 | 12,262 |
| Total liabilities | 13,355 | 12,262 |
| Equity | 32,172 | 39,509 |

Business strategies and prospects for future financial years

Distribution network

ThinkSmart has a 13 year partnership with Dixons, now extended to 2019, and there is a strong leadership focus on the UK market aimed at establishing additional relationships.

Operational capability and efficiency

With Mr Fernando de Vicente as Chief Executive Officer along with Mr Keith Jones as Executive Director Group Strategy and Development on a part time basis, both 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 credit quality is expected to improve the cost of funding, as it will make ThinkSmart a more attractive proposition to potential new funding partners.

Product diversification

ThinkSmart's UK business has agreed a 5 year exclusive contract to provide Carphone Warehouse with multi-channel lease finance for mobile phones. The product offering is expected to be launched within Carphone Warehouse in the UK, subject to meeting a number of conditions precedent, by end of 2016. This agreement builds upon the 13 year commercial relationship between ThinkSmart and the Dixons Carphone Group.

Funding platform and cash resources

The group has a multi-funder model with a £10m 5 year revolving credit facility with Santander contracted to 2019 to fund the Group's on balance sheet leases. This compliments the current £60m facility with Secure Trust Bank contracted to July 2018, which funds off balance sheet leases.

Strategic Review

In August 2015 the Group appointed Canaccord Genuity as strategic advisor to the Board as part of a Strategic Review process to unlock value in the UK business for Shareholders. As disclosed in note 27, the culmination of this review, subject to Shareholder and Regulatory approvals, is as follows:

- a placement of 20m shares at 25 pence per share to the Alphagen Volantis Catalyst Fund II Limited, a fund managed by Alphagen Capital Limited (part of Henderson Global Investors);
- the Company buying back up to 10m shares from existing shareholders by way of an off-market tender buy back at price range of \$0.38 to \$0.55 per share; and
- the Company is seeking to migrate its listing from the ASX to the AIM market of London Stock Exchange plc by early November.

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.

Concentration Risk

The vast majority of the Group's new business volumes are from its retail partner, Dixons Carphone, Europe's leading specialist electrical and telecommunications retailer. The Group has a long term exclusive contract with Dixons which has recently been extended to 2019 which is conditional on the group continuing to perform and develop the financial products it provides to Dixons just as it has done since 2003.

Currency Risk

The majority of the Group's income and assets are from its UK operations and therefore are denominated in GBP creating currency risk when translating to AUD. This risk is mitigated by ensuring that the majority of the Group's costs and liabilities are also denominated in GBP however the currency translation risk remains on the net profit and net assets held in GBP.

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 | Cents per share | Total amount | Franked/unfranked | Date paid |
|--|------------------------|---------------------|--------------------------|------------------|
| Ordinary dividend | 3.5 cents | \$3,280,478 | Franked | 9 September 2015 |
| Ordinary dividend | 1.1 cents | \$1,031,007 | Franked | 21 March 2016 |

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

As set out in the ASX announcement on 25 July 2016, the company has entered an agreement to undertake a placement of 20m shares to a fund that is managed by Henderson Global Investors at a price of 25 pence per share (approximately 44 cents per share). Following completion ThinkSmart will then seek to buy-back 10m shares by way of an off-market tender buy-back before requesting admission to AIM and formally applying to delist from the ASX.

A timetable for these events is laid out in the announcement, but the board, subject shareholder and regulatory approval is anticipating the above transactions to be completed by early November 2016.

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 | 2 | 2 | 2* | - | - | - |
| D Griffiths | 2 | 2 | 2 | 2 | - | - |
| P Gammell | 1 | 1 | n/a | - | n/a | - |
| F de Vicente | 2 | 2 | 2* | - | - | - |
| K Jones | 2 | 2 | 2* | - | - | - |

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

During the financial period, in addition to the official board meetings, the board has held a considerable number of operational meetings with executives pursuant to the Strategic Review announced at the November 2015 Annual General Meeting. Further the board has implemented a number of corporate decisions by virtue of Circular Resolutions as required.

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 | 30,311,036 | - |
| D Griffiths | 2,592,001 | - |
| P Gammell | 10,687,572 | - |
| F de Vicente | 678,000 | 2,000,000 |
| K Jones | 341,000 | 2,000,000 |

THINKSMART LIMITED DIRECTORS' REPORT

Unissued Shares under Options

At the date of this report there were 4,833,333 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 |
|--------------------------------------|----------------------------------|-------------------------------|
| 500,000 | \$0.2652 | 04 July 2018 |
| 1,000,000 | \$0.3448 | 10 June 2019 |
| 1,000,000 | \$0.4195 | 10 June 2019 |
| 333,333 | \$0.3471 | 11 December 2019 |
| 2,000,000 | \$0.4021 | 31 March 2020 |

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 17. 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 12 months ended 30 June 2016:

Executive Chairman

N Montarello

Executive Director and Chief Executive Officer

F de Vicente

Non-Executive Directors

D Griffiths (deputy Chairman)

P Gammell (appointed 23 May 2016)

Executive Director

K Jones (Group Strategy and Development Director)

Executives

G Halton (Chief Financial Officer)

D Twigg (Chief Operating Officer (Credit and Operations))

D Fletcher (Sales and Business Development Director) (appointed 7 December 2015)

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 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 financial period were \$100,270. 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.

| | Fixed remuneration | At risk | |
|------------------|--------------------|----------------------|---------------------|
| | | Short-term incentive | Long-term incentive |
| CEO | 85% | 9% | 6% |
| Other executives | 87% | 3% | 10% |

Base Pay – Fixed Compensation

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

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 Nomination and Remuneration committee have regard to the following indices in respect of the current financial period and the previous four financial years.

| | 12 Months to June 2016 | 12 Months to June 2015 | 6 Months to June 2014 | 12 Months to Dec 2013 | 12 Months to Dec 2012 |
|--|-----------------------------------|---------------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Profit/(loss) attributable to owners of the company (\$000s) | \$618 | \$3,490 | \$11,337 | \$2,309 | (\$1,441) |
| Basic EPS | 0.65 cents | 2.73 cents | 7.06 cents | 1.45 cents | (0.95) cents |
| Dividends paid | \$4,311,485 | \$5,999,875 | \$5,843,055 | - | - |
| Dividend paid per share | 4.6 cents | 6 cents | 3.6 cents | - | - |
| Share price at year end | \$0.38 | \$0.31 | \$0.37 | \$0.36 | \$0.19 |
| Change in share price | \$0.07 | (\$0.06) | \$0.01 | \$0.17 | (\$0.22) |

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 the financial year ended 30th June 2016, the table below sets out the details of the loan-funded share plan:

| Instrument | Each loan-funded share represents an entitlement to one ordinary share. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|---|------------------------------|--|-------------------------|-------------|------------------------------|------|--|--|-----------|--------|-----|-----------|--------|-----|-----------|--------|-----|------|--|--|-----------|----------|-----|-----------|----------|-----|-----------|----------|-----|------|--|--|-----------|----------|-----|-----------|----------|-----|-----------|----------|-----|
| Limited recourse loan | The company is providing interest-free, limited recourse loans to Executives to acquire shares. The limited recourse loan means that if the shares do not vest for any reason or the value of the shares is less than the outstanding loan value when it is required to be repaid, the participant's liability is limited to the value of the shares. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exercise price | 2012 loan-funded share issue: \$0.1923 2013 loan-funded share issue: \$0.2652 2015 loan-funded share issue: \$0.3620 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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> <tr> <td colspan="3">2015</td> </tr> <tr> <td>Tranche 1</td> <td>\$0.5537</td> <td>25%</td> </tr> <tr> <td>Tranche 2</td> <td>\$0.7119</td> <td>25%</td> </tr> <tr> <td>Tranche 3</td> <td>\$0.8701</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% | 2015 | | | Tranche 1 | \$0.5537 | 25% | Tranche 2 | \$0.7119 | 25% | Tranche 3 | \$0.8701 | 50% |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tranche 1 | \$0.5537 | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tranche 2 | \$0.7119 | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tranche 3 | \$0.8701 | 50% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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 2015 loan-funded share issue: 18 September 2017 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Performance period | 2012 loan-funded share issue: 10 August 2012 to 10 August 2015 2013 loan-funded share issue: 04 July 2013 to 04 March 2017* 2015 loan-funded share issue: 18 September 2014 to 18 September 2017 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exercise period | From vesting date until expiry date | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expiry date | 2012 loan-funded share issue: 09 August 2017 2013 loan-funded share issue: 03 July 2018 2015 loan-funded share issue: 18 September 2019 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

*extended from 4 July 2016 subject to shareholder approval

THINKSMART LIMITED
DIRECTORS' REPORT

The table below sets out the details of the performance options issued to Executives since 2012:

| | | | | |
|-----------------------------------|--|-------------|----------|------------------------------|
| Instrument | Each option represents an entitlement to one ordinary share. | | | |
| Exercise price | 2013 performance option issue: \$0.2652 2014 Series 1 performance option issue: \$0.3448 2014 Series 2 performance option issue: \$0.4195 2014 Series 3 performance option issue: \$0.3471 2015 performance option issue: \$0.4021 | | | |
| 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 |
| | 2013 | | | |
| | Tranche 1 | \$0.3802 | | 25% |
| | Tranche 2 | \$0.4889 | | 25% |
| | Tranche 3 | \$0.5975 | | 50% |
| 2014 | Series 1 | Series 2 | Series 3 | |
| Tranche 1 | \$0.4827 | \$0.5873 | \$0.5527 | 25% |
| Tranche 2 | \$0.6206 | \$0.7551 | \$0.7107 | 25% |
| Tranche 3 | \$0.7586 | \$0.9229 | \$0.8686 | 50% |
| 2015 | | | | |
| Tranche 1 | \$0.4691 | | | 25% |
| Tranche 2 | \$0.6032 | | | 25% |
| Tranche 3 | \$0.7372 | | | 50% |
| | 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 | 2013 performance option issue: 04 July 2016 2014 (Series 1 and 2) performance option issue: 11 June 2017 2014 (Series 3) performance option issue: 12 December 2017 2015 performance option issue: 31 March 2018 | | | |
| Performance period | 2013 performance option issue: 04 July 2013 to 04 July 2016 2014 (Series 1 and 2) performance option issue: 11 June 2014 to 11 June 2017 2014 (Series 3) performance option issue: 12 December 2014 to 12 December 2017 2015 performance option issue: 31 March 2015 to 31 March 2018 | | | |
| Exercise period | From vesting date until expiry date | | | |
| Expiry date | 2013 performance option issue: 03 July 2018 2014 (Series 1 and 2) performance option issue: 11 June 2019 2014 (Series 3) performance option issue: 11 December 2019 2015 performance option issue: 31 March 2020 | | | |

**THINKSMART LIMITED
DIRECTORS' REPORT**

B. Key Management Personnel Remuneration

Services from Remuneration Consultants - No remuneration consultants were used in the financial period ending 30th June 2016.

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 below.

| | Short Term | | | | Post-employment | | | Other long term | | Share-based payments | | Total |
|--------------------------------|------------------|----------------|----------------|-----------------------|------------------|-------------------------|----------------------|--------------------------|------------------|----------------------|----------|------------------|
| | Salary & fees | STI cash bonus | Other | Non-monetary benefits | Total | Superannuation benefits | Termination benefits | Long service entitlement | Options & rights | Shares | Total | |
| | | | | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | | | | |
| D Griffiths | 90,270 | - | - | - | 90,270 | 8,576 | - | - | - | - | - | 98,846 |
| 2015 | 79,750 | - | - | - | 79,750 | 7,576 | - | - | - | - | - | 87,326 |
| S Penglis(i) | - | - | - | - | - | - | - | - | - | - | - | - |
| 2015 | 25,970 | - | - | - | 25,970 | 2,467 | - | - | - | - | - | 28,437 |
| P Gammell(ii) | 10,000 | - | - | - | 10,000 | - | - | - | - | - | - | 10,000 |
| 2015 | - | - | - | - | - | - | - | - | - | - | - | - |
| Executive Directors | | | | | | | | | | | | |
| N Montarello | 331,497 | - | - | - | 331,497 | 30,000 | - | 9,312 | 59,750 | - | - | 430,559 |
| 2015 | 325,000 | - | - | - | 325,000 | 30,000 | - | 6,211 | 64,667 | - | - | 425,878 |
| F de Vicente(iii) | 806,384 | 82,355 | - | 1,981 | 890,720 | - | - | - | 53,667 | - | - | 944,387 |
| 2015 | 395,503 | - | - | - | 395,503 | - | - | - | 13,417 | - | - | 408,920 |
| K Jones(iv) | 357,011 | - | 316,486* | - | 673,497 | - | - | - | 86,083 | - | - | 759,580 |
| 2015 | 513,944 | 212,110 | - | - | 726,054 | - | - | - | 86,083 | - | - | 812,137 |
| Executives | | | | | | | | | | | | |
| G Halton | 281,553 | - | - | 2,440 | 283,993 | 8,663 | - | - | 8,663 | - | - | 301,469 |
| 2015 | 249,670 | - | - | 2,355 | 252,025 | 10,364 | - | - | 8,896 | - | - | 271,285 |
| D Twigg(v) | 298,950 | 61,767 | - | 284 | 361,001 | 14,175 | - | - | 7,000 | - | - | 382,176 |
| 2015 | 156,633 | - | - | 150 | 156,783 | 7,419 | - | - | 4,083 | - | - | 168,285 |
| D Fletcher (vi) | 140,023 | - | - | - | 140,023 | 6,177 | - | - | - | - | - | 146,200 |
| 2015 | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 2,315,688 | 144,122 | 316,486 | 4,705 | 2,781,001 | 67,591 | - | 9,312 | 215,312 | - | - | 3,073,216 |
| Total | 1,746,470 | 212,110 | - | 2,506 | 1,961,085 | 57,826 | - | 6,211 | 177,146 | - | - | 2,202,268 |

* Monies paid to 'Arlanza Advisory Limited', a UK company owned by K. Jones, for services in relation to the strategic review.

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.

- (i) - Steven Penglis retired on 26th November 2014
- (ii) - Peter Gammell commenced as a director on 23 May 2016
- (iii) - Fernando de Vicente (previously a Non-Executive Director) was appointed as an Executive Director on the 1st of January 2015.
- (iv) - Keith Jones (previously Chief Executive Officer) was appointed as Executive Director for Group Strategy and Development on the 1st of January 2015 and on a part-time basis from 1st April 2015
- (v) - Commenced employment on 1 December 2014
- (vi) - Commenced employment on 7 December 2015

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.

Remuneration and other terms of employment for the Chief Executive Officer are formalised in a service agreement. Fernando de Vicente's employment agreement, signed on 17 October 2014, 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 of an amount equal to the monthly instalment of basic salary for any unexpired period of notice.

In the event of retrenchment, the Executives listed 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

No shares or options were granted to Key Management Personnel in the financial period ending 30th June 2016.

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 | | | % forfeited, lapsed or expired in period (a) | Financial year in which grant vests |
|-------------------|--------------------|--|------------|-----------------------|---|--|
| | Instrument | Number granted | Grant Date | % vested in period | | |
| Directors | | | | | | |
| N Montarello | Loan funded shares | 1,000,000 | 10/08/2012 | 25% | 75% | 2016 |
| | Loan funded shares | 1,000,000 | 04/07/2013 | -% | -% | 2017 |
| | Loan funded shares | 500,000 | 18/09/2014 | -% | -% | 2018 |
| F de Vicente | Share options | 2,000,000 | 31/03/2015 | -% | -% | 2018 |
| Executives | | | | | | |
| K Jones | Share options | 1,000,000 | 11/06/2014 | -% | -% | 2017 |
| | Share options | 1,000,000 | 11/06/2014 | -% | -% | 2017 |
| G Halton | Share options | 100,000 | 10/08/2012 | -% | 100% | 2016 |
| | Share options | 250,000 | 04/07/2013 | -% | -% | 2017 |
| D Twigg | Share options | 333,333 | 12/12/2014 | -% | -% | 2018 |

- (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.

THINKSMART LIMITED
DIRECTORS' REPORT

Analysis of Movement of Options and Loan-Funded Shares

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

| | Granted in period (a) \$ | Exercised in period (b) \$ | Lapsed in period Number | Year(s) in which lapsed options granted |
|-------------------|------------------------------------|--------------------------------------|--|--|
| Directors | | | | |
| N Montarello | - | - | 750,000 | 2016 |
| Executives | | | | |
| G Halton | - | - | 100,000 | 2016 |
| | - | - | 850,000 | 2016 |

- (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.

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.

**THINKSMART LIMITED
DIRECTORS' REPORT**

Employee Options and Loan-Funded Shares

| | Held at 1 July 2015 | Held at date of new appointment | Granted as compensation | Other movement | Lapsed, forfeited or expired | Held at 30 June 2016 | Vested during the period | Vested and exercisable at 30 June 2016 |
|-------------------|---------------------|---------------------------------|-------------------------|----------------|------------------------------|----------------------|--------------------------|--|
| Directors | | | | | | | | |
| N Montarello | 2,500,000 | - | - | - | (750,000) | 1,750,000 | 250,000 | 250,000 |
| F de Vicente | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| D Griffiths | - | - | - | - | - | - | - | - |
| P Gammell | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | |
| K Jones | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| G Halton | 350,000 | - | - | - | (100,000) | 250,000 | - | - |
| D Twigg | 333,333 | - | - | - | - | 333,333 | - | - |
| | | | | | | | | |
| | Held at 1 July 2014 | Held at date of new appointment | Granted as compensation | Other movement | Lapsed, forfeited or expired | Held at 30 June 2015 | Vested during the year | Vested and exercisable at 30 June 2015 |
| Directors | | | | | | | | |
| N Montarello | 2,000,000 | - | 500,000 | - | - | 2,500,000 | - | - |
| F de Vicente | - | - | 2,000,000 | - | - | 2,000,000 | - | - |
| D Griffiths | - | - | - | - | - | - | - | - |
| S Penglis | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | |
| K Jones | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| G Halton | 350,000 | - | - | - | - | 350,000 | - | - |
| D Twigg | - | - | 333,333 | - | - | 333,333 | - | - |

Note – the above amounts in respect of N Montarello are all Loan Funded Shares and are therefore also included in his shareholding on the following page. All of the other amounts held at 30 June 2016 by other employees are Employee Share Options.

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 | - | - | -% | -% |
| F de Vicente | 82,355 | 404,262 | 20% | 80% |
| K Jones | - | - | -% | -% |
| Executives | | | | |
| G Halton | - | 52,378 | -% | 100% |
| D Twigg | 61,767 | 141,754 | 44% | 56% |
| D Fletcher | - | 61,767 | -% | 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 financial period ending 30 June 2016. 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.

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 2016 (30 June 2015: nil), with the exception of the limited recourse loans in relation to the loan-funded share scheme (refer to Note 19(b)(i) and page 10 of this Remuneration Report).

Other Key Management Personnel transactions

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

Options and rights over equity instruments

Options over ordinary shares in ThinkSmart Ltd held have been issued to Key Management Personnel during the financial year and are detailed in Note 19(b)(i) and page 10 of this Remuneration Report.

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". A copy of the Company's Corporate Governance policy can be found at the Company's website www.thinksmartworld.com.

Indemnification and Insurance

During the period ended 30 June 2016, 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.

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.

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.

| | 12 Months to June 2016 \$ |
|---|--|
| Services other than audit and review of financial statements | |
| <i>Other services</i> | |
| Taxation compliance services | 105,685 |
| Advisory services | 18,422 |
| Transaction compliance and advisory services | <u>782,301</u> |
| | <u>906,408</u> |
| Audit and review of financial statements | <u>225,766</u> |
| Total paid to KPMG | <u>1,132,174</u> |

THINKSMART LIMITED
DIRECTORS' REPORT

AUDITOR'S INDEPENDENCE DECLARATION

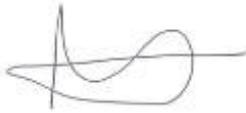
The auditor's independence declaration which forms part of this report is included in page 20 of the financial report.

ROUNDING

ThinkSmart is a Group of the kind referred to in ASIC Class Order 2016/191 dated 24 March 2016. In accordance with the class order, amounts in the financial statements and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the Directors



N Montarello
Chairman
Perth, Western Australia, 16 August 2016



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

To: the directors of ThinkSmart Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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

Denise McComish
Partner

Perth

16 August 2016

THINKSMART LIMITED
DIRECTORS' DECLARATION

1. In the opinion of the Directors of ThinkSmart Limited:
 - (a) The consolidated financial statements, notes and disclosures and 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 2016 and of its performance for the financial year ended on that date; and
 - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and
 - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the Directors:



N Montarello
Chairman
Perth, Western Australia, 16 August 2016

**Consolidated Statement of Profit & Loss and Other Comprehensive Income
for the Financial Year Ended 30 June 2016**

| | Notes | 12 Months to June 2016 \$000 | 12 Months to June 2015 \$000 |
|---|-------|------------------------------------|------------------------------------|
| Continuing operations | | | |
| Revenue | 6(a) | 24,319 | 22,060 |
| Other revenue | 6(b) | 3,004 | 2,897 |
| Total revenue | | <u>27,323</u> | <u>24,957</u> |
| Customer acquisition cost | | (3,213) | (3,180) |
| Cost of inertia assets sold | | (4,322) | (5,110) |
| Other operating expenses | 6(c) | (11,995) | (10,840) |
| Depreciation and amortisation | 6(d) | (1,448) | (648) |
| Impairment losses | 6(e) | (803) | (512) |
| Non-operating strategic review and advisory expenses | 8 | (3,801) | - |
| Profit before tax | | <u>1,741</u> | <u>4,667</u> |
| Income tax expense | 7(a) | (1,123) | (1,177) |
| Profit after tax – attributable to owners of the Company | | <u>618</u> | <u>3,490</u> |
| Other comprehensive (loss)/income | | | |
| Items that may be reclassified subsequently to profit or loss, net of income tax: | | | |
| Foreign currency translation differences for foreign operations | | (4,555) | 3,632 |
| Income tax benefit/(expense) on foreign currency translation | 7(b) | 693 | (494) |
| <i>Total items that may be reclassified subsequently to profit or loss net of income tax</i> | | <u>(3,862)</u> | <u>3,138</u> |
| Other comprehensive (loss)/income for the period, net of income tax | | <u>(3,862)</u> | <u>3,138</u> |
| Total comprehensive (loss)/income for the period attributable to owners of the Company | | <u>(3,244)</u> | <u>6,628</u> |
| Earnings per share | | | |
| Basic (cents per share) | 28 | 0.65 | 2.73 |
| Diluted (cents per share) | 28 | 0.65 | 2.69 |

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 2016

| | Notes | June 2016 \$000 | June 2015 \$000 |
|--------------------------------------|-------|--------------------|--------------------|
| Current assets | | | |
| Cash and cash equivalents | 20(a) | 8,747 | 16,832 |
| Trade receivables | | 531 | 1,014 |
| Loan and lease receivables | 9 | 5,039 | 2,301 |
| Other current assets | 10 | 4,726 | 5,786 |
| Total current assets | | 19,043 | 25,933 |
| Non-current assets | | | |
| Loan and lease receivables | 9 | 2,749 | 2,361 |
| Plant and equipment | 12 | 488 | 506 |
| Intangible assets | 13 | 12,987 | 12,658 |
| Goodwill | 15 | 4,202 | 4,773 |
| Deferred tax assets | 7 | - | 57 |
| Tax receivable | 7 | 95 | - |
| Other non-current assets | 11 | 5,963 | 5,483 |
| Total non-current assets | | 26,484 | 25,838 |
| Total assets | | 45,527 | 51,771 |
| Current liabilities | | | |
| Trade and other payables | 16 | 3,095 | 2,374 |
| Deferred service income | 17 | 2,338 | 3,369 |
| Other interest bearing liabilities | 18 | 3,932 | 2,205 |
| Tax payable | 7 | - | 834 |
| Provisions | 16 | 346 | 230 |
| Total current liabilities | | 9,711 | 9,012 |
| Non-current liabilities | | | |
| Deferred service income | 17 | 1,474 | 1,833 |
| Deferred tax liability | 7 | 25 | - |
| Other interest bearing liabilities | 18 | 2,145 | 1,417 |
| Total non-current liabilities | | 3,644 | 3,250 |
| Total liabilities | | 13,355 | 12,262 |
| Net assets | | 32,172 | 39,509 |
| Equity | | | |
| Issued capital | 19(a) | 27,838 | 27,838 |
| Reserves | | (2,010) | 1,852 |
| Accumulated profits | | 6,344 | 9,819 |
| Total equity | | 32,172 | 39,509 |

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

THINKSMART LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity
for the Financial Year Ended 30 June 2016

| Consolidated | Fully paid ordinary shares \$000 | Foreign currency translation reserve \$000 | Accumulated Profit \$000 | Attributable to equity holders of the parent \$000 |
|---|---|---|---|---|
| Balance at 1 July 2014 | 48,096 | (1,286) | 12,137 | 58,947 |
| Profit for the period | - | - | 3,490 | 3,490 |
| Exchange differences arising on translation of foreign operations, net of tax | - | 3,138 | - | 3,138 |
| Total comprehensive income for the period | - | 3,138 | 3,490 | 6,628 |
| Transactions with owners of the Company, recognised directly in equity | | | | |
| <i>Contributions by and distributions to owners of the Company</i> | | | | |
| Dividends paid | - | - | (6,000) | (6,000) |
| Share buyback | (19,715) | - | - | (19,715) |
| Costs associated to share buyback | (543) | - | - | (543) |
| Recognition of share-based payments | - | - | 192 | 192 |
| Balance at 30 June 2015 | 27,838 | 1,852 | 9,819 | 39,509 |
| Balance at 1 July 2015 | 27,838 | 1,852 | 9,819 | 39,509 |
| Profit for the period | - | - | 618 | 618 |
| Exchange differences arising on translation of foreign operations, net of tax | - | (3,862) | - | (3,862) |
| Total comprehensive (loss)/income for the period | - | (3,862) | 618 | (3,244) |
| 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)) | - | - | (4,311) | (4,311) |
| Recognition of share-based payments | - | - | 218 | 218 |
| Balance at 30 June 2016 | 27,838 | (2,010) | 6,344 | 32,172 |

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

**Consolidated Statement of Cash Flows
for the Financial Year Ended 30 June 2016**

| | Notes | 12 Months to June 2016 \$000 | 12 Months to June 2015 \$000 |
|---|-------|------------------------------------|------------------------------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | | 27,914 | 25,329 |
| Payments to suppliers and employees | | (22,473) | (20,135) |
| Payments relating to strategic review and advisory expenses | | (2,523) | - |
| Payments in respect of lease receivables | | (4,042) | (3,972) |
| Proceeds from other interest bearing liabilities, inclusive of related costs | | 3,201 | 3,776 |
| Interest received | | 301 | 758 |
| Interest and finance charges | | (640) | (194) |
| Income tax paid | | (1,280) | (451) |
| Receipts from security guarantee | | 1,571 | (180) |
| Net cash (used in)/from operating activities | 20(b) | 2,029 | 4,931 |
| Cash Flows from Investing Activities | | | |
| Payments for plant and equipment | | (303) | (398) |
| Payment for intangible assets – Software | | (4,038) | (1,227) |
| Payment for intangible assets – Contract rights | | (355) | (657) |
| Net cash used in investing activities | | (4,696) | (2,282) |
| Cash Flows from Financing Activities | | | |
| Dividends paid | | (4,311) | (6,000) |
| Share buyback, inclusive of transaction costs | | - | (20,258) |
| Net cash used in financing activities | | (4,311) | (26,258) |
| Net decrease in cash and cash equivalents | | (6,978) | (23,609) |
| Effect of exchange rate fluctuations on cash held | | (1,107) | 1,371 |
| Cash and cash equivalents from continuing operations at beginning of the financial year | | 16,832 | 39,070 |
| Total cash and cash equivalents at the end of the financial period | 20(a) | 8,747 | 16,832 |
| Restricted cash and cash equivalents at the end of the financial period | 20(a) | (210) | (436) |
| Net available cash and cash equivalents at the end of the financial period | | 8,537 | 16,396 |

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 twelve months ended 30 June 2016 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 Suite 5, 531 Hay Street, Subiaco, West Perth, WA 6008 and further information can be found at www.thinksmartworld.com.

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 16 August 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

ThinkSmart is a Group of the kind referred to in ASIC Class Order 2016/191 dated 24 March 2016. In accordance with the class order, amounts in the financial statements and the directors’ report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

(d) Changes in accounting policies

The accounting policies applied by the consolidated entity in this financial report are consistent with those applied by the consolidated entity in its consolidated financial report as at and for the period ended 30 June 2015.

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

A number of new standards and interpretations are effective for annual periods beginning after 1 July 2016 and have not been applied in preparing this financial report. The Group does not plan to adopt these standards 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 |
|-------------|--|---|------------------------------|---|----------------------------|
| AASB9 | Financial Instruments | AASB9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. | 1-Jan-2018 | The Group has not yet determined the extent of the impacts of the amendments, if any. | 1-Jul-2018 |
| AASB 2014-7 | Amendments to Australian Accounting Standards arising from AASB9 | (a) These amendments arise from the issuance of AASB9 <i>Financial Instruments</i> that set out requirements for the classification and measurement of financial assets. (b) This Standard shall be applied when AASB9 is applied. | 1-Jul-2018 | | 1-Jul-2018 |
| AASB 2014-8 | Amendments to Australian Accounting | The application of the existing versions of AASB9 (December 2009 and December 2010, including the hedging amendments | 1-Jul-2018 | | 1-Jul-2018 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | | | | | |
|-------------|---|---|------------|--|------------|
| | Standards arising from AASB 9 | made in December 2013) from 1 February 2015 is limited to entities that have already early adopted them. | | | |
| AASB 15 | Revenue from Contracts with Customers | The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. | 1-Jul-2018 | | 1-Jul-2018 |
| AASB 2014-5 | Amendments to Australian Accounting Standards arising from AASB 15 | (a) These amendments arise from the issuance of AASB 15 <i>Revenue from contracts with customers</i> that set out requirements for the classification and measurement of financial assets. (b) This Standard shall be applied when AASB 15 is applied. | 1-Jul-2018 | | 1-Jul-2018 |
| AASB 2016-3 | Amendments to Australian Accounting Standards – Clarifications to AASB 15 | This standard clarifies the requirements on identifying performance obligations, principal v agent considerations and the timing of recognising revenue from granting a licence. | 1-Jan-2018 | The Group has not yet determined the extent of the impacts of the amendments, if any. | 1-Jul-2018 |
| AASB 2016-5 | Amendment to Australian Accounting Standards – Classification and measurement of share-based payment transactions | This Standard makes a number of amendments to AASB 2. | 1-Jan-2018 | | 1-Jul-2018 |
| AASB 16 | Leases | This standard results in all leases being on balance sheet with the front loading of expenses. | 1-Jul-2018 | | 1-Jul-2018 |
| AASB 2016-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | This standard results in increased disclosures for cash flows from financing activities. | 1-Jan-2017 | The application of this standard will result in an additional reconciliation being disclosed for the Group's financing facilities. | 1-Jul-2017 |

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. 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. Restricted cash comprises amounts owed to funders in respect of customer lease payments.

(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 with other income/other expenses in profit or loss.

Depreciation

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

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

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(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 and measured at fair value.

(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.

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.

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 income and costs

Initial direct income/costs or directly attributable, incremental transaction income/costs incurred in the origination of leases are included as part of receivables 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 (refer note 3(f)(iii)).

Effective interest method

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

Insurance prepayment

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

THINKSMART LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Financial guarantee contracts

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

The fair value of the financial guarantee is determined by way of calculating the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation. Any increase in the liability relating to financial guarantees is recognised in profit and loss. Any liability remaining is derecognised in profit and loss when the guarantee is discharged, cancelled or expires.

(iii) Impairment of assets

Financial assets, including finance lease receivables and loan receivables

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

In assessing collective impairment, the Group uses modelling of historical trends of the probability of defaults, timing of recoveries and the amount of loss incurred. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the assets 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 the profit and loss when an asset is either non recoverable or has suffered arrears of at least 91 days. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit and loss.

Non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 costs are capitalised only up to the point when the software has been tested and is ready for use in the manner intended by management.

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

The intangible asset is amortised on a straight line basis over its estimated useful life, which is between 3 and 5 years. Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(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.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

(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.

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

(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 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 amounts 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

NOTES TO THE FINANCIAL STATEMENTS

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 recognised in respect of the unexpired rental contracts.
- Income earned from sale of equipment
Proceeds from the sale of rental assets are recognised at the time of the sale to the extent not already recognised through Finance lease income.

Insurance income

Insurance income includes commissions' receivable on insurance policies issued by third party insurers to cover theft and damage of rental equipment. The 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.

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

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

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

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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.

(n) Goods and services tax

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

- (i) where the amount of GST/VAT 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/VAT.

The net amount of GST/VAT 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/VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(o) Foreign currency transactions

Foreign currency transactions

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

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

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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.

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 corporate 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.

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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. 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 inertia assets;
- Note 19(b)(i) – Share based payment transactions;
- Note 25(b) – Financial instruments.

4. Critical accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

- Note 13 - fair value at inception of inertia intangible assets and recoverable amount;
- Note 13 - measurement of deferred services income;
- Note 15 - measurement of the recoverable amount of cash generating units containing goodwill;
- Note 19(b)(i) - measurement of share-based payments, and
- Note 24 - value of financial guarantee contract net of loss provision.

5. Financial Risk Management

Overview

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

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

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

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

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

Credit Risk

Credit risk refers to the risk that a counterparty or customer will default on its contractual obligations resulting in financial loss to the Group. The Group'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 have day to day responsibility for managing credit risk within the risk appetite of the Board. Appropriate oversight occurs via monthly credit performance reporting to management and the Board.

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

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

Liquidity risk

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

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

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

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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 foreign currency derivatives are entered into.

Liabilities incurred in each respective geographical territory are paid for by the cash flows of the functional currency of that territory. 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 (2015: nil).

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

Interest rate risk

The Group has \$6.4m corporate borrowings as at 30 June 2016 (30 June 2015: \$4.1m). 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. As at 30 June 2016 there were \$5.4m interest rate swaps in place with Santander UK plc to fix the future interest rate exposure on the Santander loan facility (see note 18). The mark to market value of these interest rate swaps as at 30 June 2016 was \$27,260.

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 2016 | June 2015 | June 2014 |
|--------------------------------|------------------|------------------|------------------|
| | \$000 | \$000 | \$000 |
| Total liabilities | 13,355 | 12,262 | 8,555 |
| Less cash and cash equivalents | (8,747) | (16,832) | (39,070) |
| Net debt/(Net cash) | <u>4,608</u> | <u>(4,570)</u> | <u>(30,515)</u> |
| Total equity | <u>32,172</u> | <u>39,509</u> | <u>58,947</u> |
| Debt-to-adjusted capital ratio | <u>0.14</u> | <u>-</u> | <u>-</u> |

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

The Board assesses the Group's ability to pay dividends from time to time. During the financial period to 30 June 2016, the Board declared and paid an ordinary dividend fully franked at 3.5 cents per share paid on 9 September 2015 and an ordinary dividend fully franked at 1.1 cents per share paid on 21 March 2016 (refer to Note 19(c)).

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Notes | 30 June 2016 \$000 | 30 June 2015 \$000 |
|--|-------|-----------------------|-----------------------|
| 6. Consolidated Statement of Profit and Loss | | | |
| Profit/(loss) from continuing operations is arrived at after crediting/(charging) the following items: | | | |
| (a) Revenue | | | |
| Finance lease income | | 1,871 | 269 |
| Interest revenue – other entities | | 300 | 758 |
| Surplus unguaranteed residual income | | 2,386 | 3,183 |
| Extended rental income | | 6,366 | 7,597 |
| Other inertia income | 17 | 4,054 | 4,502 |
| Fee revenue – customers | | 253 | 286 |
| Commission income | | 9,089 | 5,465 |
| | | 24,319 | 22,060 |
| (b) Other revenue | | | |
| Services revenue – insurance | | 2,973 | 2,789 |
| Other revenue | | 31 | 108 |
| | | 3,004 | 2,897 |
| (c) Other operating expenses | | | |
| Employees benefits expense: | | | |
| - Payments to employees | | 7,375 | 6,612 |
| - Employee superannuation costs | | 540 | 426 |
| - Share-based payment expense | | 221 | 190 |
| - Provision for employee entitlements | | 45 | - |
| | | 8,181 | 7,228 |
| Occupancy costs | | 633 | 549 |
| Professional services | | 1,004 | 1,591 |
| Finance charges | | 419 | 216 |
| Other costs | | 1,758 | 1,256 |
| | | 11,995 | 10,840 |
| (d) Depreciation and amortisation | | | |
| Depreciation | | 279 | 168 |
| Amortisation | | 1,169 | 480 |
| | | 1,448 | 648 |
| (e) Impairment losses | | | |
| Impairment losses finance leases and receivables | | 302 | 42 |
| Impairment losses on intangible assets (net) | | 501 | 470 |
| | | 803 | 512 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | Notes | 30 June 2016 \$000 | 30 June 2015 \$000 |
|---|-------|-----------------------|-----------------------|
| 7. Income Tax | | | |
| (a) Amounts recognised in profit and loss | | | |
| The major components of income tax expense/(benefit) are: | | | |
| Current income tax charge | | 1,232 | 1,105 |
| Adjustment for prior period | | (196) | - |
| <i>Deferred income tax expense</i> | | | |
| Origination and reversal of temporary differences | | 87 | 72 |
| Total income tax expense/(benefit) | | <u>1,123</u> | <u>1,177</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 | | 1,741 | 4,667 |
| At the statutory income tax rate of 30% | | 523 | 1,398 |
| Effect of tax rates in foreign jurisdictions | | (477) | (381) |
| Non-deductible expenses | | 1,259 | 136 |
| Overseas tax losses not recognised/(recognised) | | 14 | 24 |
| Adjustments in respect of prior periods | | (196) | - |
| Income tax expense from continuing operations | | <u>1,123</u> | <u>1,177</u> |
| Deferred tax asset – continuing operations | | | |
| Accrued expenses | | 47 | 28 |
| Employee entitlements | | 82 | 69 |
| Equity raising costs | | 56 | 136 |
| Borrowing costs | | 2 | 7 |
| Intangible assets | | 736 | 736 |
| Total | | <u>923</u> | <u>976</u> |
| Deferred tax liability – continuing operations | | | |
| Plant & equipment | | 39 | 10 |
| Intangible assets | | 909 | 909 |
| Total | | <u>948</u> | <u>919</u> |
| Net deferred tax (liability) for UK | | (206) | (182) |
| Net deferred tax asset for Australia | | 181 | 239 |
| Tax (receivable)/payable | | | |
| Current | | <u>(95)</u> | <u>834</u> |

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

(b) Amounts recognised in other comprehensive income

| | | | |
|---|--|-------|-----|
| Foreign operations – foreign currency translation differences | | | |
| Income tax (benefit)/expense | | (693) | 494 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | 30 June 2016 | 30 June 2015 |
|--|-------------------------|-------------------------|
| | \$000 | \$000 |
| 8. Non-operating strategic review and advisory expenses | | |
| Non-operating strategic review and advisory expenses* | (3,801) | - |

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

| | 30 June 2016 \$000 | 30 June 2015 \$000 |
|--------------------------------------|-------------------------------|-------------------------------|
| 9. Loan and lease receivables | | |
| Current | | |
| Rental receivables | 5,158 | 2,519 |
| Unguaranteed residuals | 414 | 41 |
| Unearned finance income | (466) | (245) |
| Net lease receivable | <u>5,106</u> | <u>2,315</u> |
| Allowance for losses | <u>(67)</u> | <u>(14)</u> |
| | <u>5,039</u> | <u>2,301</u> |
| Non-current | | |
| Rental receivables | 2,813 | 2,667 |
| Unguaranteed residuals | 226 | 44 |
| Unearned finance income | (254) | (335) |
| Net lease receivable | <u>2,785</u> | <u>2,376</u> |
| Allowance for losses | <u>(36)</u> | <u>(15)</u> |
| | <u>2,749</u> | <u>2,361</u> |

Refer to note 25(c) for further information relating to credit risk.

| | 30 June 2016 \$000 | 30 June 2016 \$000 |
|---------------------------------|-------------------------------|-------------------------------|
| 10. Other Current Assets | | |
| Prepayments | 3,532 | 3,380 |
| Inventories | 897 | 1,567 |
| Sundry debtors | 297 | 839 |
| | <u>4,726</u> | <u>5,786</u> |

| | | |
|--|--------------|--------------|
| 11. Other Non-Current Assets | | |
| Insurance prepayments | 2,002 | 2,177 |
| Deposits held by funders, net of provision (i) | <u>3,961</u> | <u>3,306</u> |
| | <u>5,963</u> | <u>5,483</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. See note 24 for further information.

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12. Plant and Equipment

| | Notes | Plant & Equipment \$000 | Lease equipment & software \$000 | Total \$000 |
|-------------------------------------|-------|-------------------------------|---|----------------|
| Gross Carrying Amount | | | | |
| Cost or deemed cost | | | | |
| Balance at 1 July 2014 | | 1,969 | 73 | 2,042 |
| Effect of movement in exchange rate | | 513 | - | 513 |
| Additions | | 432 | - | 432 |
| Balance at 30 June 2015 | | 2,914 | 73 | 2,987 |
| Effect of movement in exchange rate | | (564) | - | (564) |
| Additions | | 284 | - | 284 |
| Balance at 30 June 2016 | | 2,634 | 73 | 2,707 |
| Accumulated Depreciation | | | | |
| Balance at 1 July 2014 | | (1,733) | (73) | (1,806) |
| Effect of movement in exchange rate | | (507) | - | (507) |
| Depreciation expense | | (168) | - | (168) |
| Balance at 30 June 2015 | | (2,408) | (73) | (2,481) |
| Effect of movement in exchange rate | | 541 | - | 541 |
| Depreciation expense | | (279) | - | (279) |
| Balance at 30 June 2016 | | (2,146) | (73) | (2,219) |
| Net Book Value | | | | |
| At 30 June 2015 | | 506 | - | 506 |
| At 30 June 2016 | | 488 | - | 488 |

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 July 2014 | 1,715 | 186 | 489 | 642 | 12,595 | 15,627 |
| Additions | 196 | 1,333 | - | - | 4,292 | 5,821 |
| Disposals/transfer to inventory | - | - | - | - | (5,396) | (5,396) |
| Effect of movement in exchange rate | 201 | 18 | 65 | - | 1,571 | 1,855 |
| Balance at 30 June 2015 | 2,112 | 1,537 | 554 | 642 | 13,062 | 17,907 |
| Additions | 303 | 3,516 | - | - | 3,047 | 6,866 |
| Disposals/transfer to inventory | - | - | - | - | (3,829) | (3,829) |
| Effect of movement in exchange rate | (215) | (178) | (66) | - | (950) | (1,409) |
| Balance at 30 June 2016 | 2,200 | 4,875 | 488 | 642 | 11,330 | 19,535 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Intangible Assets (continued)

| | Contract rights \$000 | Software \$000 | Distribution network \$000 | Intellectual Property \$000 | Inertia Contracts \$000 | Total \$000 |
|---|--------------------------------------|---------------------------|---|--|--|------------------------|
| Accumulated amortisation and impairment | | | | | | |
| Balance at 1 July 2014 | (1,149) | (55) | (488) | (449) | (1,486) | (3,627) |
| Amortisation expense | (306) | (141) | - | (33) | - | (480) |
| Effect of movement in exchange rate | (148) | (13) | (66) | - | (445) | (672) |
| Impairment loss (i) | - | - | - | - | (470) | (470) |
| Balance at 30 June 2015 | (1,603) | (209) | (554) | (482) | (2,401) | (5,249) |
| Amortisation expense | (386) | (751) | - | (32) | - | (1,169) |
| Effect of movement in exchange rate | 203 | 113 | 66 | - | 292 | 674 |
| Impairment loss (i) | - | - | - | - | (804) | (804) |
| Balance at 30 June 2016 | (1,786) | (847) | (488) | (514) | (2,913) | (6,548) |

Net book value

| | | | | | | |
|-----------------|-----|-------|---|-----|--------|--------|
| At 30 June 2015 | 509 | 1,328 | - | 160 | 10,661 | 12,658 |
| At 30 June 2016 | 414 | 4,028 | - | 128 | 8,417 | 12,987 |

(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.

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 (customer hire agreement for goods) 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 pre-tax discount rate applied to the fair value is 13.21%.</p> | <p>In order of financial impact 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
30 June 2016 30 June 2015

14. Interest in Subsidiaries

| Interest in Subsidiaries | Country of Incorporation | | |
|--|---------------------------------|-----|-----|
| RentSmart Limited | UK | 100 | 100 |
| ThinkSmart Insurance Services Administration Ltd | UK | 100 | 100 |
| ThinkSmart Financial Services Ltd | UK | 100 | 100 |
| ThinkSmart Europe Ltd | UK | 100 | 100 |
| ThinkSmart UK Ltd | UK | 100 | 100 |
| SmartCheck Ltd | UK | 100 | 100 |
| SmartCheck Finance Spain SL | Spain | 100 | 100 |
| SmartPlan Spain SL | Spain | 100 | 100 |
| ThinkSmart Italy Srl | Italy | 100 | 100 |
| ThinkSmart Inc | USA | 100 | 100 |
| ThinkSmart Employee Share Trust | Australia | 100 | 100 |
| ThinkSmart LTI Pty Limited | Australia | 100 | 100 |

30 June 2016 30 June 2015
\$000 \$000

15. Goodwill

| | | |
|--|-------|-------|
| Balance at beginning of financial period | 4,773 | 4,216 |
| Effect of movement in exchange rate | (571) | 557 |
| Balance at end of financial period | 4,202 | 4,773 |

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 actual operating results for the 12 months to 30 June 2016 and management estimates for 2017 to 2021.
- A post tax discount rate of 8.46% (10.58% pre-tax) was applied in determining the recoverable amount of the unit.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | 30 June 2016 | 30 June 2015 |
|---|---------------------|---------------------|
| | \$000 | \$000 |
| 16. Trade and Other Payables, and Provisions | | |
| Trade and other payables | 936 | 1,037 |
| GST/VAT Payable | 159 | 231 |
| Other accrued expenses | 2,000 | 1,106 |
| | <u>3,095</u> | <u>2,374</u> |
| Provisions | | |
| Annual leave | 116 | 81 |
| Long service leave | 157 | 148 |
| Other | 73 | 1 |
| | <u>346</u> | <u>230</u> |
| | 30 June 2016 | 30 June 2015 |
| | \$000 | \$000 |
| 17. Deferred Service Income | | |
| Balance at 1 July | 5,202 | 4,975 |
| Effect of movement in exchange rate | (80) | 505 |
| Intangible inertia assets acquired | 3,047 | 4,292 |
| Reversal due to intangible asset impairment | (303) | (68) |
| Recognised in Consolidated Statement of Profit and Loss | (4,054) | (4,502) |
| | <u>3,812</u> | <u>5,202</u> |
| Deferred service income to be recognised within 12 months | 2,338 | 3,369 |
| Deferred service income to be recognised in greater than 12 months | 1,474 | 1,833 |
| | <u>3,812</u> | <u>5,202</u> |
| | 30 June 2016 | 30 June 2015 |
| | \$000 | \$000 |
| 18. Other interest bearing liabilities | | |
| Current | | |
| - Loan advances net of deferred costs of raising facility (i) | 3,932 | 2,205 |
| Non-current | | |
| - Loan advances net of deferred costs of raising facility (i) | 2,145 | 1,417 |
| Customer financing facilities | | |
| - Loan advances | 6,413 | 4,101 |
| - Amount used | 6,413 | 4,101 |
| - Amount unused | 11,609 | 16,370 |
| | <u>18,022</u> | <u>20,471</u> |
| Total Facility (i) | 18,022 | 20,471 |
| (i) The loan is a £10m 5 year revolving credit facility provided by Santander UK PLC dated 15 December 2014 to finance lease receivables. | | |
| Other finance facilities (business credit card): | | |
| - amount used | 14 | 12 |
| - amount unused | 78 | 90 |
| | <u>92</u> | <u>102</u> |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

| | 30 June 2016 | 30 June 2015 |
|--|---------------------|---------------------|
| | \$000 | \$000 |
| 19. Issued Capital | | |
| (a) Issued and paid up capital | | |
| 95,477,922 Ordinary Shares fully paid (2015: 96,227,922) | 27,838 | 27,838 |

| | 2016 | 2016 | 2015 | 2015 |
|---|---------------|--------------|---------------|--------------|
| | Number | \$000 | Number | \$000 |
| <i>Fully Paid Ordinary Shares</i> | | | | |
| Balance at beginning of the financial period | 96,227,922 | 27,838 | 158,734,857 | 48,096 |
| Issue of new shares for employee loan-funded share plan | - | - | 500,000 | - |
| Cancellation of shares through buyback | - | - | (63,006,935) | (19,715) |
| Costs associated to buy-back | - | - | - | (543) |
| Cancellation employee loan-funded shares | (750,000) | - | - | - |
| Balance at end of the financial period | 95,477,922 | 27,838 | 96,227,922 | 27,838 |

During the period no employee share options or loan-funded shares were exercised (2015: 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.

(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 and loan-funded shares issued in previous periods:

- 3,033,333 loan-funded shares were issued 10 August 2012 and exercisable at \$0.1923, vesting and exercisable on 10 August 2015 until 9 August 2017. The fair value of these options at grant date was \$0.02-\$0.06. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.35 is met in accordance with the performance conditions;
 - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.55 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.75 is met in accordance with the performance conditions.

- 750,000 options over ordinary shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 4 July 2016 until 3 July 2018. The fair value of these options at grant date was \$0.098-\$0.118. Vesting of the options is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of options will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
 - Tranche 2: 25% of options will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

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

- 3,243,333 loan-funded shares were issued 4 July 2013 and exercisable at \$0.2652, vesting and exercisable on 4 March 2017 until 4 March 2019*. The fair value of these options at grant date was \$0.098-\$0.118. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of loan-funded shares will vest if the share price hurdle of \$0.3802 is met in accordance with the performance conditions;
 - Tranche 2: 25% of loan-funded shares will vest if the share price hurdle of \$0.4889 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan-funded shares will vest if the share price hurdle of \$0.5975 is met in accordance with the performance conditions.

*extended from 4 July 2016 subject to shareholder approval

- 1,000,000 (series 1) and 1,000,000 (series 2) options over ordinary shares were issued 11 June 2014 and exercisable at \$0.3448 and \$0.4195 respectively, vesting and exercisable on 11 June 2017 until 11 June 2019. The fair value of these options at grant date was \$0.135-\$0.158 for series 1 and \$0.104-\$0.131 for series 2. Vesting of the options is subject to achievement of the following performance conditions:

Series 1

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

Series 2

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

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

Series 3

- Tranche 1: 25% of options will vest if the share price hurdle of \$0.5527 is met in accordance with the performance conditions;
- Tranche 2: 25% of options will vest if the share price hurdle of \$0.7107 is met in accordance with the performance conditions; and
- Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.8686 is met in accordance with the performance conditions.

- 2,000,000 options over ordinary shares were issued 31 March 2015 and exercisable at \$0.4021, vesting and exercisable on 31 March 2018 until 31 March 2020. The fair value of these options at grant date was \$0.071-\$0.096. Vesting of the options is subject to achievement of the following performance conditions:

- Tranche 1: 25% of options will vest if the share price hurdle of \$0.4691 is met in accordance with the performance conditions;
- Tranche 2: 25% of options will vest if the share price hurdle of \$0.6032 is met in accordance with the performance conditions; and
- Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.7372 is met in accordance with the performance conditions.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

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

- 500,000 loan-funded shares were issued 18 September 2014 and exercisable at \$0.3620, vesting and exercisable on 22 May 2017 until 18 September 2019. The fair value of these options at grant date was \$0.133-\$0.17. Vesting of the loan-funded shares is subject to achievement of the following performance conditions:
 - Tranche 1: 25% of options will vest if the share price hurdle of \$0.5537 is met in accordance with the performance conditions;
 - Tranche 2: 25% of options will vest if the share price hurdle of \$0.7119 is met in accordance with the performance conditions; and
 - Tranche 3: 50% of loan options will vest if the share price hurdle of \$0.8701 is met in accordance with the performance conditions.

The value of these options and loan-funded shares will be expensed over the vesting period in accordance with AASB2.

No options or loan-funded shares were issued in the current period.

Measurement of fair values

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

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

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

| | Employee options and loan-funded shares |
|--------------------------|---|---|---|---|---|---|
| Period ending | 30 June 2015 | 30 June 2015 | 30 June 2015 | 30 June 2014 | 31 December 2013 | 31 December 2012 |
| Grant date | 31/03/2015 | 12/12/2014 | 22/5/2014 | 11/06/2014 | 4/07/2013 | 10/08/2012 |
| Fair value at grant date | \$0.071-\$0.096 | \$0.053-\$0.080 | \$0.133-\$0.170 | \$0.104-\$0.158 | \$0.098-\$0.118 | \$0.02-\$0.06 |
| Grant date share price | \$0.365 | \$0.315 | \$0.390 | \$0.375 | \$0.27 | \$0.19 |
| Exercise price | \$0.4021 | \$0.3471 | \$0.3620 | \$0.3448/\$0.4195 | \$0.2652 | \$0.1923 |
| Expected volatility | 45% | 50% | 55% | 55% | 55% | 50% |
| Option/loan share life | 4 years | 4 years | 4.2 years | 4 years | 4 years | 4 years |
| Dividend yield | 4.0% | 4.7% | 1.6% | 1.6% | 0% | 2.14% |
| Risk-free interest rate | 1.76% | 2.35% | 3.04% | 3.1% | 2.99% | 2.5% |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

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

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:

| | Period ending 30 June 2016 | | Period ending 30 June 2015 | |
|--|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | 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 | 7,533,333 | \$0.33 | 5,050,000 | \$0.29 |
| Granted during the financial period | - | - | 2,833,333 | \$0.39 |
| Forfeited during the financial period | (950,000) | \$0.19 | (350,000) | \$0.24 |
| Expired during the financial period | - | - | - | - |
| Balance at the end of financial period | 6,583,333 | \$0.35 | 7,533,333 | \$0.33 |
| Exercisable at end of the financial period | 250,000 | \$0.19 | - | - |

The options and loan-funded shares outstanding at 30 June 2016 have an exercise price in the range of \$0.1923 to \$0.4195 (30 June 2015: \$0.1923 to \$0.4195) and a weighted average contractual life of 2.95 years (30 June 2015: 3.72 years).

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

| | 12 months to 30 June 2016 \$000 | 12 months to 30 June 2015 \$000 |
|---|------------------------------------|------------------------------------|
| Share options/loan-funded shares granted in 2013 – equity settled | 49 | 54 |
| Share options/loan-funded shares granted in 2014 – equity settled | 118 | 86 |
| Share options/loan-funded shares granted in 2015 – equity settled | 54 | 52 |
| Total expense recognised as employee costs (note 6c) | 221 | 192 |

(b)(ii) Share compensation – employee shares

No shares of the Company were granted as remuneration and no share options vested during the reporting 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 |
|-------------------|-----------------|--------------|-------------------|------------------|
| Ordinary dividend | 3.5 cents | \$3,280,478 | Franked | 9 September 2015 |
| Ordinary dividend | 1.1 cents | \$1,031,007 | Franked | 21 March 2016 |

(d) Franking credits

| | 30 June 2016 \$000 | 30 June 2015 \$000 |
|--|-----------------------|-----------------------|
| Franking credit account balance as at the beginning of the financial period at a tax rate of 30% (2015: 30%) | 1,875 | 2,885 |
| Franking credits attached to the dividend paid during the financial period | (1,894) | (881) |
| Franking credits from the payment of income tax paid and payable as at the end of the financial period | 208 | (129) |
| Franking credit account balance as at the end of the financial period at a tax rate of 30% (2015: 30%) | 189 | 1,875 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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 2016 \$000 | as at 30 June 2015 \$000 |
|--|---|---|
| Reconciliation of cash and cash equivalents | | |
| Cash balance comprises: | | |
| - Available cash and cash equivalents | 8,537 | 16,396 |
| - Restricted cash | 210 | 436 |
| | <u>8,747</u> | <u>16,832</u> |

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

| | 12 months to 30 June 2016 \$000 | 12 months to 30 June 2015 \$000 |
|--|--|--|
| (b) Reconciliation of the profit/(loss) for the period to net cash flows from operating activities: | | |
| Profit after tax | 618 | 3,490 |
| Add back non-cash and non-operating items: | | |
| Depreciation | 279 | 168 |
| Amortisation | 1,169 | 516 |
| Impairment losses on intangible assets | 501 | 470 |
| Impairment losses on finance lease receivables | 302 | 42 |
| Foreign currency loss/(gain) unrealised | 60 | (17) |
| Equity settled share-based payment | 221 | 190 |
| (Increase)/decrease in assets: | | |
| Trade receivables, deposits held with funders and other movements in lease assets | (172) | (404) |
| Finance lease receivable | 46 | (223) |
| Deferred tax asset | 82 | 73 |
| Other assets | (265) | 1,079 |
| Rental asset inventory | 670 | (180) |
| Increase/(decrease) in liabilities: | | |
| Trade and other creditors | (101) | (700) |
| Deferred service revenue | (1,390) | 227 |
| Provisions | 116 | - |
| Provision for income tax | (929) | 654 |
| Other payables | 822 | - |
| Net cash (used in)/from operating activities | <u>2,029</u> | <u>4,931</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 2016 | June 2015 |
|--|------------------|------------------|
| | \$000 | \$000 |
| Non-cancellable operating lease payments: | | |
| No later than 1 year | 173 | 196 |
| Later than 1 year and not later than 5 years | 691 | 784 |
| More than 5 years | 201 | 425 |
| | <u>1,065</u> | <u>1,405</u> |

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

22. Segment Information

The Group has one reportable segment which comprise the Group's core business unit (UK). Head office and other unallocated corporate functions are shown separately.

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

UK:

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

Corporate and unallocated:

- ThinkSmart Limited

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Segment Information (continued)

Operating Segments
Information about reportable segments

For the period ended:

| | UK | | Corporate and unallocated | | Total | |
|---|---------------|---------------|---------------------------|--------------|---------------|---------------|
| | June 2016 | June 2015 | June 2016 | June 2015 | June 2016 | June 2015 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Revenue | 24,019 | 21,301 | - | - | 24,019 | 21,301 |
| Other revenue | 3,004 | 2,897 | - | - | 3,004 | 2,897 |
| Intercompany revenue | - | - | 3,816 | 3,692 | 3,816 | 3,692 |
| Interest revenue | 274 | 255 | 26 | 504 | 300 | 759 |
| Total revenue | 27,297 | 24,453 | 3,842 | 4,196 | 31,139 | 28,649 |
| Indirect customer acquisition costs | (7,535) | (8,290) | - | - | (7,535) | (8,290) |
| Operating expenses | (8,691) | (7,505) | (3,083) | (3,321) | (11,774) | (10,826) |
| Depreciation and amortisation | (1,370) | (570) | (78) | (78) | (1,448) | (648) |
| Impairment losses (Note 6(e) and 13) | (803) | (512) | - | - | (803) | (512) |
| Intercompany expenses | (3,816) | (3,692) | - | - | (3,816) | (3,692) |
| Interest expense | (221) | (14) | - | - | (221) | (14) |
| Non-operating strategic review and advisory expenses | - | - | (3,801) | - | (3,801) | - |
| Reportable segment profit/(loss) before income tax | 4,861 | 3,870 | (3,120) | 797 | 1,741 | 4,667 |
| Income tax expense | (970) | (854) | (153) | (323) | (1,123) | (1,177) |
| Reportable segment profit/(loss) after income tax | 3,891 | 3,016 | (3,273) | 474 | 618 | 3,490 |
| Reportable segment current assets | 18,592 | 22,620 | 451 | 3,313 | 19,043 | 25,933 |
| Reportable segment non-current assets | 26,275 | 25,525 | 209 | 313 | 26,484 | 25,838 |
| Reportable segment liabilities | 11,682 | 11,854 | 1,673 | 408 | 13,355 | 12,262 |
| Capital expenditure | 4,103 | 1,961 | - | 1 | 4,103 | 1,962 |

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Segment Information (continued)

Major customer

Revenues from the Group's funding partners represent \$7.6m (30 June 2015: \$5.8m) of the Group's total revenue.

23. Remuneration of Auditor

| | 12 Months to June 2016 | 12 Months to June 2015 |
|---|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| Audit and review services: | | |
| <i>Auditor of the Company:</i> | | |
| Audit and review of financial reports (Australia) | 52,762 | 50,000 |
| Audit and review of financial reports (Overseas) | 173,004 | 158,649 |
| | <hr/> | <hr/> |
| | 225,766 | 208,649 |
| Services other than statutory audit: | | |
| Tax compliance and advisory services | 112,633 | 10,542 |
| Other regulatory services* | 36,791 | 59,581 |
| Advisory services | 26,297 | 8,461 |
| Transaction compliance and advisory services | 782,301 | - |
| | <hr/> | <hr/> |
| | 958,022 | 78,584 |

*relates to statutory accounting requirements within Spain and Italy

The Group's auditors are KPMG.

24. Commitments and Contingent Liabilities

| | 12 Months to June 2016 | 12 Months to June 2015 |
|--|-----------------------------------|-----------------------------------|
| | \$,000 | \$,000 |
| STB funded leases (off balance sheet) | 37,662 | 52,182 |
| STB financial guarantee contract | 6,174 | 8,575 |
| Less provision on credit support balance | (2,213) | (4,923) |
| | <hr/> | <hr/> |
| | 3,961 | 3,652 |

Under the terms of the UK current funding agreement with Secure Trust Bank (STB), the group is obliged to purchase delinquent leases from the funder at the funded amount. The Group has entered into a financial guarantee contract with STB for which the Group has provided capital to support future delinquent leases and at the same time recognised a provision against this deposit being its estimate of the funded amount of these leases that are likely to become delinquent in the future. The Group estimates this amount based on historical loss experience for assets with similar characteristics.

The credit support balance net of the provision is recognised as an asset on the Group's balance sheet within deposits held by funders.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments

(a) Interest rate risk

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

| | Carrying amount | |
|--------------------------------------|--------------------|--------------------|
| | June 2016 \$000 | June 2015 \$000 |
| Variable rate instruments | | |
| Cash and cash equivalents (note 20a) | 8,747 | 16,832 |
| Deposits held by funder (note 24) | 6,174 | 8,575 |
| Other interest bearing liabilities | (6,413) | (4,101) |
| Net financial assets | <u>8,508</u> | <u>21,306</u> |

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 (2015: 1% increase \$0.213m, 1% decrease \$0.213m). This analysis assumes that all other factors remain constant including foreign currency rates.

| | Profit or Loss | |
|---------------------------|-------------------------|-------------------------|
| | Increase 1% \$000 | Decrease 1% \$000 |
| Variable rate instruments | 85 | (85) |
| Net profit sensitivity | <u>85</u> | <u>(85)</u> |

(b) Fair value of financial instruments

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

Fair value hierarchy

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

The different levels have been defined as follows:

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

Key assumptions in the valuation of the instruments were limited to interpolating interest rates for certain future periods where there was no observable market data. The majority of financial assets and liabilities are measured at amortised cost. The only financial instrument measured at fair value is the interest rate swaps with Santander UK plc. This is a level 2 financial instrument with a fair value of \$27,260.

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 2016 \$000 | June 2015 \$000 |
|---|-------------|----------------------------------|----------------------------------|
| Cash and cash equivalents | 20(a) | 8,747 | 16,832 |
| Trade receivables | | 605 | 1,108 |
| Loan and lease receivable (current) | 9 | 5,106 | 2,315 |
| Loan and lease receivable (non-current) | 9 | 2,785 | 2,376 |
| Prepayments (current) | | 2,433 | 2,507 |
| Sundry debtors | 10 | 297 | 839 |
| Other non-current assets | 11 | 5,963 | 5,483 |
| | | <u>25,936</u> | <u>31,460</u> |

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

| | June 2016 \$000 | June 2015 \$000 |
|-----------|----------------------------------|----------------------------------|
| Australia | 378 | 3,161 |
| UK | 25,530 | 28,224 |
| Other | 28 | 75 |
| | <u>25,936</u> | <u>31,460</u> |

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

| | June 2016 \$000 | June 2015 \$000 |
|-------------------------|----------------------------------|----------------------------------|
| Banks (i) | 8,747 | 16,832 |
| Funders | 3,961 | 3,306 |
| Insurance partners (ii) | 4,435 | 4,684 |
| Retail customers | 7,890 | 4,691 |
| Others | 903 | 1,947 |
| | <u>25,936</u> | <u>31,460</u> |

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

(ii) In the current financial reporting period, 100% (prior year: 100%) of the 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)

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

| | Gross 2016 \$000 | Impairment 2016 \$000 | Gross 2015 \$000 | Impairment 2015 \$000 |
|-----------------------|---------------------------------|--------------------------------------|---------------------------------|--------------------------------------|
| Not past due | 8,153 | 38 | 5,031 | 23 |
| Past due 0-30 days | 212 | 25 | 635 | 5 |
| Past due 31-120 days | 52 | 71 | 47 | 23 |
| Past due 121-365 days | 79 | 44 | 86 | 72 |
| | <u>8,496</u> | <u>178</u> | <u>5,799</u> | <u>123</u> |

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

| | June 2016 \$000 | June 2015 \$000 |
|----------------------------------|----------------------------|----------------------------|
| Balance at 1 July | 123 | 59 |
| Impairment loss recognised | 357 | 226 |
| Bad debt written off | (287) | (170) |
| Effect of exchange rate movement | (15) | 8 |
| Balance at 30 June | <u>178</u> | <u>123</u> |

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

(d) Currency risk management

Exposure to currency risk

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

| | 30 June 2016 | | |
|---------------------------|---------------------|---------------------|----------------------|
| | GBP £000 | EUR €000 | USD \$000 |
| Cash and cash equivalents | 4,629 | 18 | - |
| Trade receivables | 459 | - | - |
| Lease receivable | 4,322 | - | - |
| Trade and other payables | (1,007) | 7 | (3) |
| Net exposure | <u>8,403</u> | <u>25</u> | <u>(3)</u> |

| | 30 June 2015 | | |
|---------------------------|---------------------|---------------------|----------------------|
| | GBP £000 | EUR €000 | USD \$000 |
| Cash and cash equivalents | 6,238 | 51 | - |
| Trade receivables | 684 | - | - |
| Lease receivable | 2,277 | - | - |
| Trade and other payables | (1,197) | (4) | (3) |
| Net exposure | <u>8,002</u> | <u>47</u> | <u>(3)</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 | |
|-----|--------------|--------|--------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| AUD | | | | |
| EUR | 0.6561 | 0.6963 | 0.6699 | 0.6866 |
| GBP | 0.4857 | 0.5307 | 0.5549 | 0.4885 |
| USD | 0.7283 | 0.8382 | 0.7426 | 0.7680 |

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 2015:

| | Equity \$000 | Profit or loss \$000 |
|---------------------|-----------------|-------------------------|
| 30 June 2016 | | |
| EUR | 128 | 5 |
| GBP | (941) | (96) |
| USD | 261 | - |
| 30 June 2015 | | |
| EUR | (7) | 8 |
| GBP | (1,151) | (489) |
| USD | - | 1 |

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 2016 | | | | | |
| Trade and other payables | 3,095 | (3,095) | (3,095) | - | - |
| Other interest bearing liabilities | 6,413 | (6,744) | (4,406) | (2,338) | - |
| | <u>9,508</u> | <u>(9,508)</u> | <u>(7,244)</u> | <u>(2,264)</u> | <u>-</u> |
| 30 June 2015 | | | | | |
| Trade and other payables | 2,374 | (2,374) | (2,374) | - | - |
| Other interest bearing liabilities | 4,101 | (4,352) | (2,173) | (2,179) | - |
| | <u>6,475</u> | <u>(6,726)</u> | <u>(4,547)</u> | <u>(2,179)</u> | <u>-</u> |

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 Directors

F de Vicente (Chief Executive Officer)

K Jones (Group Strategy and Development Director)

Non-Executive Directors

D Griffiths (deputy Chairman)

P Gammell (appointed 23 May 2016)

Executives

G Halton (Chief Financial Officer)

D Twigg (Chief Operating Officer (Credit and Operations))

D Fletcher (Sales and Business Development Director) appointed 7 December 2015

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

| | 12 Months to June 2016 | 12 Months to June 2015 |
|------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| Short-term employee benefits | 2,781,001 | 1,961,085 |
| Post-employment benefits | 67,591 | 57,826 |
| Other long-term benefits | 9,312 | 6,211 |
| Share-based payments | 215,312 | 177,146 |
| | <u>3,073,216</u> | <u>2,202,268</u> |

27. Subsequent Events

As set out in the ASX announcement on 25 July 2016, the company has entered an agreement to undertake a placement of 20m shares to a fund that is managed by Henderson Global Investors at a price of 25 pence per share (approximately 44 cents per share). Following completion ThinkSmart will then seek to buy-back 10m shares by way of an off-market tender buy-back before requesting admission to AIM and formally applying to delist from the ASX.

A timetable for these events is laid out in the announcement, but the board, subject shareholder and regulatory approval is anticipating the above transactions to be completed by early November 2016.

THINKSMART LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Earnings per Share

| | 12 months to 30 June 2016 \$000 | 12 months to 30 June 2015 \$000 |
|---|--|--|
| Profit/(loss) after tax attributable to ordinary shareholders | 618 | 3,490 |
| | 30 June 2016 Number | 30 June 2015 Number |
| Weighted average number of ordinary shares (basic) | 95,560,114 | 127,672,035 |
| Weighted average number of ordinary shares (diluted) | 95,685,114 | 129,555,185 |
| | 30 June 2016 | 30 June 2015 |
| Earnings per share | | |
| Basic earnings/(loss) per share (cents) | 0.65 | 2.73 |
| Diluted earnings/(loss) per share (cents) | 0.65 | 2.69 |

At 30 June 2016 1,000,000 (30 June 2015:1,500,000) employee share options were excluded from the diluted weighted average number of ordinary shares calculation as they do not currently meet their share price hurdle and thus would have been anti-dilutive if included.

29. Parent Entity Disclosures

As at, and throughout, the financial period ending 30 June 2016, the parent entity of the Group was ThinkSmart Limited.

| | 12 Months to 30 June 2016 \$000 | 12 Months to 30 June 2015 \$000 |
|--|--|--|
| Result of parent entity | | |
| (Loss)/profit for the period | 2,427 | 588 |
| Total comprehensive (loss)/profit for the period | <u>2,427</u> | <u>588</u> |
| Financial position of parent entity at period end | | |
| Current assets | 423 | 3,236 |
| Total assets | <u>27,666</u> | <u>28,574</u> |
| Current liabilities | 1,681 | 705 |
| Total liabilities | <u>1,681</u> | <u>705</u> |
| Total equity of the parent entity comprising of: | | |
| Share capital | 27,838 | 27,838 |
| Retained earnings | (1,853) | 31 |
| Total equity | <u>25,985</u> | <u>27,869</u> |

Parent entity contingencies

The parent entity continues to provide financial support to ThinkSmart Europe Ltd through an intercompany loan. Repayment of this loan will not be requested until ThinkSmart Europe Ltd is in a financial position to make such a payment without affecting its operational capabilities. The parent entity has provided an unlimited guarantee to Santander UK PLC in support of the financing facility provided to ThinkSmart Financial Services Ltd. 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 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(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 ThinkSmart Limited 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 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 17 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of ThinkSmart Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Denise McComish
Partner

Perth

16 August 2016

THINKSMART LIMITED
CORPORATE INFORMATION

ABN 24 092 319 698

Directors

N R Montarello (Executive Chairman)
D Griffiths (Deputy Chairman)
P Gammell (Non-Executive Director)
F de Vicente (Chief Executive Officer)
K Jones (Group Strategy and Development Director)

Company Secretary

Neil Hackett

Registered and Principal Office

Suite 5, 531 Hay Street
Subiaco
WA 6008
Australia
Phone: +61 8 9389 4403

Share Register

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth WA 6000
Australia
Phone: 1300 787 272

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

Solicitors

Herbert Smith Freehills
250 St Georges Terrace
Perth WA 6000
Australia

Auditors

KPMG
235 St Georges Terrace
Perth WA 6000
Australia

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000
Australia

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 October 2016.

Distribution of Equity Security

| | Number of ordinary shares | Security holders Options |
|------------------|---------------------------|--------------------------|
| 1 – 1,000 | 100 | - |
| 1,001 – 5,000 | 520 | - |
| 5,001 – 10,000 | 291 | - |
| 10,001 – 100,000 | 588 | - |
| 100,001 and over | 70 | 2 |

There were 207 holders of less than a marketable parcel of Ordinary Shares

Equity Security Holders

Twenty largest quoted equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

| Name | Units | % of Units |
|--|------------|------------|
| MR NATALE RONALD MONTARELLO <MONTARELLO INV A/C> | 27,021,956 | 23.25 |
| CITICORP NOMINEES PTY LIMITED | 24,977,407 | 21.49 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 8,350,448 | 7.18 |
| WULURA INVESTMENTS PTY LTD <PJT GAMMELL SUPER FUND A/C> | 5,537,740 | 4.76 |
| THINKSMART LTI PTY LTD <TS EMPLOYEE SHARE A/C> | 2,500,000 | 2.15 |
| DARJU PTY LTD | 2,107,239 | 1.81 |
| PHOENIX PROPERTIES INTERNATIONAL PTY LTD | 2,000,000 | 1.72 |
| WULURA INVESTMENTS PTY LTD <PJT GAMMELL SUPER FUND A/C> | 1,636,118 | 1.41 |
| WULURA INVESTMENTS PTY LTD | 1,566,948 | 1.35 |
| MR NATALE RONALD MONTARELLO + MRS KIMBERLY MONTARELLO <MONTARELLO S/F A/C> | 1,535,000 | 1.32 |
| RUDIE PTY LTD <MATTANI SUPER FUND A/C> | 926,091 | 0.80 |
| MR FERNANDO VICENTE LOPEZ | 803,000 | 0.69 |
| WULURA INVESTMENTS PTY LTD <PJT GAMMELL SUPER FUND A/C> | 764,144 | 0.66 |
| MR DANIEL EDWARD GAMMELL | 605,000 | 0.52 |
| MR ROBERT BAGNARA | 600,000 | 0.52 |
| WULURA INVESTMENTS PTY LTD <PJT GAMMELL SUPER FUND A/C> | 577,622 | 0.50 |
| MR HONG KEONG CHIU + MS YOK KEE KHOO | 572,077 | 0.49 |
| NTH CITRUS PTY LTD <LAKE AVENUE A/C> | 484,762 | 0.42 |
| MR MILAN HERCEG | 430,000 | 0.37 |
| CUSTODIAN SJST PTY LTD <GALE FAMILY A/C> | 415,000 | 0.36 |
| Total | 83,410,552 | 71.76 |

Unquoted Equity Securities

| | Number on Issue | Number of holders |
|--|-----------------|-------------------|
| Options issued under the ESOP to take up ordinary shares | 2,333,000 | 2 |

The Company has no other unquoted equity securities.

Substantial Holders

Substantial holders in the Company are set out below:

| Include those above 5% | Number of ordinary shares | Percentage % |
|------------------------------------|---------------------------|--------------|
| MR NATALE RONALD MONTARELLO | 30,311,036 | 26.20 |
| HENDERSON GLOBAL INVESTORS LIMITED | 20,000,000 | 17.32 |
| PETER GAMMELL | 10,687,572 | 9.26 |

Voting Rights

The voting rights attaching to equity securities are set out below:

- a) **Ordinary Shares**
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.
- b) **Loan-Funded Ordinary Shares issued under the Long-Term Incentive Plan**
Shares under the plan rank equally in all respects with Ordinary Shares, including voting rights.
- c) **Options**
There are no voting rights attached to the options.



CORPORATE INFORMATION

ABN 24 092 319 698

Directors

N R Montarello (Executive Chairman)
F de Vicente (Chief Executive Officer)
K Jones (Group Strategy & Development Director)
P Gammell (Non-Executive Director)

Company Secretary

Neil Hackett

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Share Register

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Perth WA 6000
Australia
Phone: 1300 787 272

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

Solicitors

Herbert Smith Freehills
250 St Georges Terrace
Perth WA 6000
Australia

Auditors

KPMG
235 St Georges Terrace
Perth WA 6000
Australia

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000
Australia

