

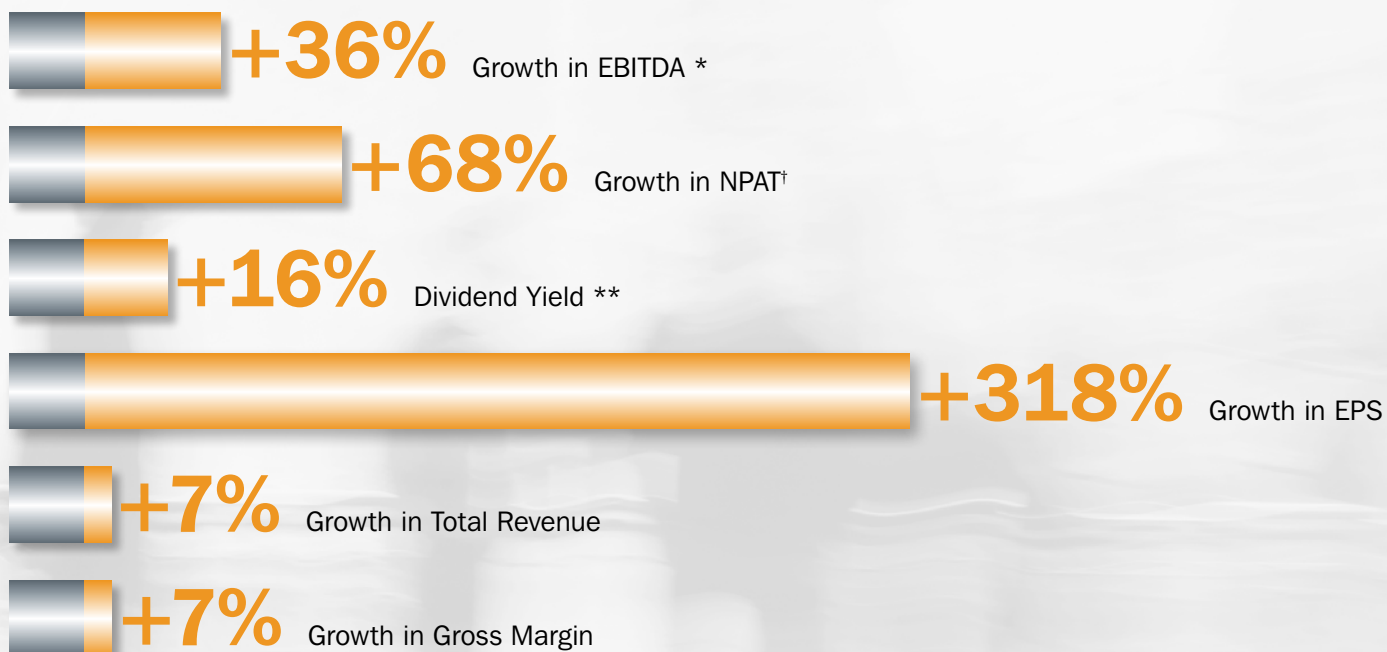


THINKSMART

ANNUAL REPORT 2008

FY 2008

GROUP HIGHLIGHTS



*before IPO and U.S. operating costs

** 12 month dividend yield based on 30 day volume weighted average price to 31 March 2009 of \$0.22.

†before IPO, amortisation and U.S. operating costs

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Annual general meeting

2009 Annual General Meeting of ThinkSmart Limited (the "Company") will be held at Level 36, 250 St Georges Tce, Perth, Western Australia on Friday 22nd May at 2.00pm.

1. THINKSMART'S GLOBAL OPPORTUNITY

17.1 million

small businesses

53,000

credit applications

6 Countries

across Europe & Australasia

ThinkSmart Limited is a leading international financial services company that is focused on the provision of B2B finance solutions for small businesses shopping in electrical retailing stores.

Our products fill the gap for these customers between a credit card and bank loan, enabling them to get on-the-spot approval for the technology they need via a tax and cash flow friendly operating lease.

It's a niche that we believe we are leading globally.

We have exclusive distribution agreements with some of the world's leading electrical retailers and banking institutions in six countries across Europe and Australasia. This exposes our products to a combined market of over 17.1 million small business, purchasing an estimated \$70bn in off-the-shelf technology per annum.

In 2008 we experienced record levels of product demand, processing more than 53,000 credit applications, a growth of 11% on 2007; evidence that small businesses worldwide

need effective cash flow funding solutions in these challenging economic times.

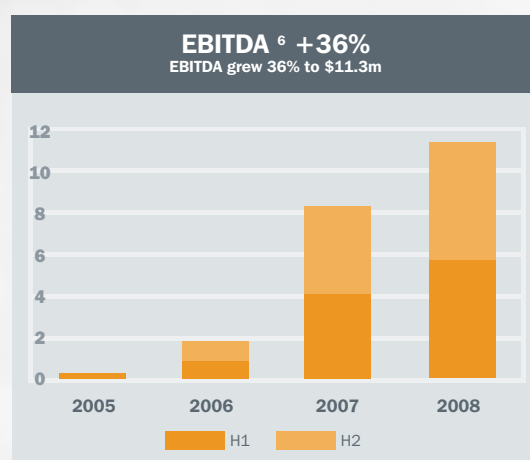
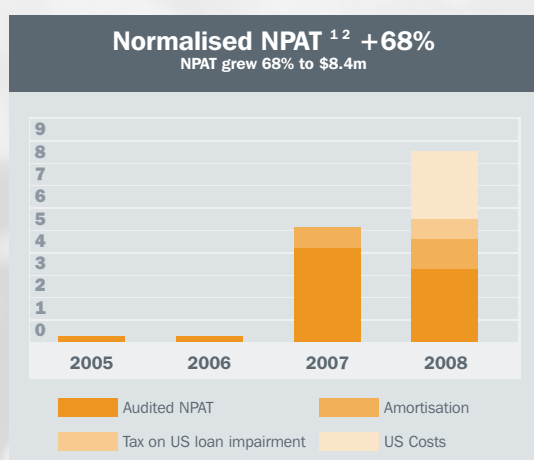
Our business model has proven to be highly resilient in the current economic conditions. EBITDA excluding IPO costs and U.S. costs grew by 36% in FY 2008, driven by improved upfront margins and growth from our insurance and inertia lines which deliver recurring income from contracts written in prior years. This recurring income sees the business well positioned to ride out current global economic conditions.

While we have not scheduled to expand into any new Territories this year, our operational focus is to capitalise on this period by growing market share within all existing Territories. This will be achieved through both the expansion of our distribution channels in key European markets and the deployment of new products to meet the changing dynamics of the retail market place.

The opportunities we take during 2009 will position us strongly for accelerated growth on the improvement of global economic conditions.

2. FY 2008 GROUP HIGHLIGHTS

For the financial year ended 31st December 2008, ThinkSmart delivered a record full-year EBITDA (Pre IPO & U.S. costs) of \$11.3m, a growth of 36% on the previous corresponding period.

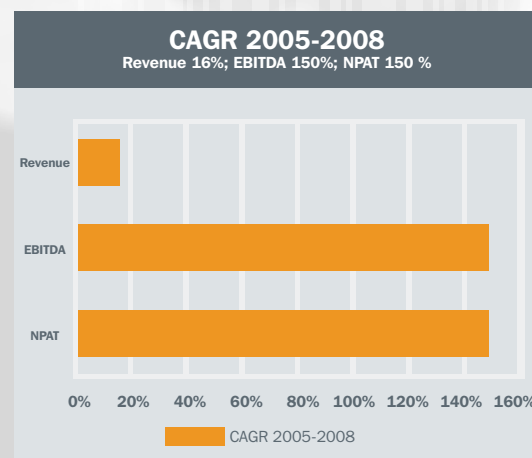
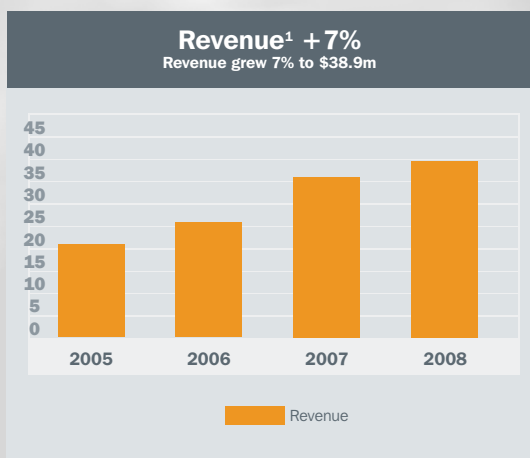


	FY 2008	FY 2007	%change
Application Volume	53,225	48,111	+11%
Settled Volume ³	27,234	28,584	-5%
Total Revenue	\$38.9m	\$36.3m	+7%
Gross Margin	66%	61%	+7%
EBITDA (pre IPO and U.S. costs)	\$11.3m	\$8.3m	+36%
EBITDA Margin (pre Corp dev costs)	32%	28%	+14%
NPAT	\$3.2m	\$0.7m	+335%
Earnings Per Share	3.3 ¢	0.8 ¢	+318%
Dividend - Franked ⁴	3.5 cps	0 cps	

¹ 100% of UK pre-acquisition. ² Pre-IPO, amortisation and U.S. costs.

³ Impact of credit environment with 8% drop in approval rate. ⁴ 2 Cents paid in October 2008. Final Dividend of 1.5 cents paid on 14 April 2009.

⁶ Pre-IPO and U.S. costs.



Financial Highlights

- Customer demand increased 11% with 53,225 applications assessed.
- Total Revenue up 7% to \$38.9m
- Earnings before interest, tax, depreciation and amortisation up 36% to \$11.3m pre IPO and US costs.
- Net Profit After Tax of \$8.4m pre amortisation and US costs.
- Solid second half performance relative to first half (EBITDA \$5.7m H1: \$5.6m H2)
- ThinkSmart declared a fully-franked final dividend of 1.5 cents per share, representing a 16% dividend yield⁵ for the full year.
- Earnings per share of 8.7 cents before amortisation and US costs.

Operational Highlights

- Extended contracts with PC World and PC City (umbrella agreement) through to 2013.
- Launched Warranty Services product with The Warranty Group in Australia through Dick Smith stores.
- Launched trial in France with Media-Saturn, Europe's largest electrical retailer
- Launched in Italy with DSG International's PC City chain.
- Extended Next Byte contract in Australia through new three year agreement.
- Expanded into all 65 Dick Smith stores in New Zealand.

⁵ 12 month dividend yield based on a 30 day volume weighted average price to 31 March 2009 of \$0.22.

3. CHAIRMAN & CHIEF EXECUTIVE'S REPORT

Dear Shareholders

We are pleased to be able to report that, for the Financial Year ended 31st December 2008, ThinkSmart delivered a record full-year EBITDA (pre IPO and U.S. costs) of \$11.3 million, a growth of 36% on the previous corresponding period.

Total revenue rose 7% to \$38.9 million with gross margin increasing 7%. We paid an interim dividend of 2.0 cents per share franked at 40% in October, and declared a fully-franked final dividend of 1.5 cents per share which was paid on 14th April 2009. This represented a 16% dividend yield for the full year.⁵

This is a pleasing and solid result given the current global economic climate.

Strong Demand. Resilient Model

Our business has proven exceedingly resilient and continues to trade well through these challenging times.

Customer demand for our products has never been stronger, with 53,225 contracts processed in 2008, a growth of 11% on 2007.

This demand was evidenced in markets like the UK where, despite our retail partner's sales being in double digit decline, we experienced a 10% like-for-like (LFL) increase in demand as small businesses increasingly looked to solutions, such as ours, to help them sustain their cash flow.

Locally, in Australia, we have benefited with both JB Hi-Fi and Dick Smith continuing to perform well and experiencing strong growth across the year in spite of the challenging retail conditions.

In contrast, customer credit quality declined notably in all markets during the year, but our responsible credit criteria and processes held up well. This saw approval rates decline by 8% across the group as we proactively managed our criteria to ensure our credit standards and those of our banking partners were not compromised in the drive for growth.

This decline was offset across the business through a growth in margin at the front end, recurring inertia income which is received on the expiry of customer contracts continuing to exceed forecasts, and warranty services income which commenced in March 2008.

It is important for shareholders to understand the underlying value of our funding model, which sees us receive income not only at the commencement of a customers' contract, but on a monthly basis through its life thanks to the attachment of insurance to customer contracts, and at the end of term through our inertia strategies. We have 75,000 live contracts at 31st December 2008 which alone should contribute around \$60m in revenue from these sources over the next 4 years.





Peter Mansell
Chairman



Ned Montarelo
Founder & Chief Executive Officer

Pace Of Expansion To Be Governed By Performance: Growth Through Cash Flow Not Debt.

Operationally, we have positioned the business to be net debt free and geared to grow cash reserves during 2009. In late 2008, continued uncertainty about the length and depth of the U.S. downturn, restrictive credit conditions and the continuing volatility of currency exchange rates led us to the decision to cease to write any new business in the U.S. This decision was taken in line with our aim to continue to grow business through cash flow, not debt. To this end the U.S. operations are suspended and will not incur any costs in 2009. Importantly, our relationships remain open in the U.S. with a view to re-engaging when trading conditions improve.

Alignment With Market Leading Retailers: Market Share Growth

This action in the U.S. has enabled us to focus our resources on our more profitable, accessible territories and partnerships in Europe and Australasia where we see opportunities to gain market share through this downturn. Our strategy is to align with market leading international retailers to meet the finance needs of small businesses shopping for technology in their stores. It's a niche that we believe we are leading globally. While we have not scheduled to expand into any new territories during 2009, our clear strategy is to continue to grow our market share in all of our existing territories, both organically and through the establishment of new retail partnerships. In Europe we have significant opportunities in France and Spain where we are pursuing multi-channel distribution strategies akin to Australia. Our opportunity is to add key, market leading partners in each territory to position us with a dominant portfolio of retailers as we have in Australia.

Strong Start to the Year

ThinkSmart achieved a 33% growth in EBITDA for the last six months of 2008 over the same time in the previous year, finishing off 2008 strongly. This momentum has been sustained into 2009 and although we expect 2009 to be flat for customer acquisition, performance to date has been in line with expectations and we maintain a positive outlook for EBITDA.

We thank all our staff for their continued hard work and enthusiasm and, notwithstanding the challenging global conditions, we remain confident that our products are designed to prosper in this environment and that we will continue to deliver improved performance.

Peter Mansell
Chairman

Ned Montarelo
Founder & Chief Executive Officer

⁵ 12 month dividend yield based on a 30 day volume weighted average price to 31 March 2009 of \$0.22.

4. A COMPELLING PROPOSITION & RESILIENT BUSINESS PLATFORM

ThinkSmart earns income at all stages of its customers' lifecycle, meaning that it has a natural in-built tolerance to the fluctuations of retail market conditions.

A Product That's Right for the Times

ThinkSmart's core product model has strong appeal for all parties to the transaction, especially under these current market conditions:

- The customer gets a convenient cash flow and tax friendly way to access the technology they need, whilst keeping their cash in their business.
- The retailer is able to realise a greater gross profit on its sales which is a key focus in these tight economic times; and
- The funder is able to gain an attractive margin relative to the risk taken.

Income Channels Through-Life

ThinkSmart's core revenue model, also provides the business a significant buffer to the current economic environment with income derived from three main sources:

- 1 **Brokerage income** - This is received and recognised up front at the commencement of each new contract.
- 2 **Insurance income** - ThinkSmart receives a commission on sale of insurance to the customer for their leased equipment but takes no underwriting risk. In most territories this commission is received and recognised on a monthly basis across the term of the customers' contract.

All three parties derive strong benefits.

Customers	Retailers	Funders
✓ On-the-spot approval	✓ Gross profit vehicle	✓ Access to niche market
✓ No requirement for detailed financials	✓ Bigger sales	✓ Attractive margin
✓ Payments up to 100% tax deductible	✓ Higher profit margin products (best brands plus warranty etc.)	✓ ThinkSmart responsible for processing
✓ Upgrade path to new technology	✓ ThinkSmart sales management	
✓ Affordable monthly payments	✓ Attractive rebate	
✓ Good for cash flow	✓ Reduces need to discount	
✓ Off balance sheet	✓ Fast in store approval	
✓ Bundle add-ons and services into same contract		

1. Brokerage Income

Earned upfront at start of contract



2. Insurance Income

Earned every month through life of contract



3. Inertia Income

Earned at the end of life of a contract



3 Inertia income - At the conclusion of the initial rental contract, ThinkSmart has a contractual right to purchase the goods from the funders for a nominal sum. From this point all income from continuing rentals or sale of goods is paid to ThinkSmart. Inertia income is received and recognised at the end of the initial contract term.

Key point: ThinkSmart currently has 75,000 contracts on the books at 31st December 2008 which alone should contribute around \$60m in revenue over the next 4 years.

New Warranty Services Revenue Line

From March 2008 ThinkSmart has provided warranty services to Dick Smith stores in Australia and New Zealand, receiving a fee from the warranty provider. The business will increase the material contribution of this complementary revenue stream in 2009 and is exploring opportunities to extend this service offering into other markets.



the warranty group®



5. TRADING UPDATE

In 2008 ThinkSmart saw record levels of product demand, processing more than 53,000 credit applications, a growth of 11% on 2007, as small businesses in Europe and Australia increasingly turned to cash flow management solutions.

Australia

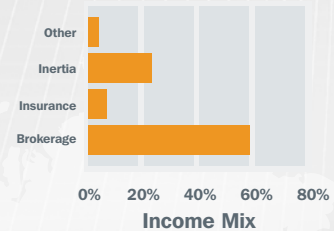
Total sales in the Australian business grew by 10% in 2008, with revenue increasing 13% to \$18.4m and EBITDA growing 29% to \$4.7m.

Key drivers have been the continued stability of volume with key retail partners JB Hi-Fi and Dick Smith notably continuing to outperform market expectation; margin improvements from customer repricing and increased insurance attachment; and the recognition of a new line of revenue through the Warranty Services Product delivered in the Dick Smith stores, which sees ThinkSmart earn a commission on the premium. Inertia performance in Australia has continued to increase, further contributing to a strong EBITDA performance.

During the period, ThinkSmart extended its contract with Next Byte, Australia's largest independent Apple reseller, for a further three years.

42%

Volume Contribution



- ▲ Revenue up 13% to \$18.4m
- ▲ EBITDA up 29% to \$4.7m
- ▲ EBITDA margin up 4% to 27%
- ▲ Gross margin up 4% to 62%
- ▲ Volumes up by 10%
- ▼ Average Deal Value down \$159



United Kingdom

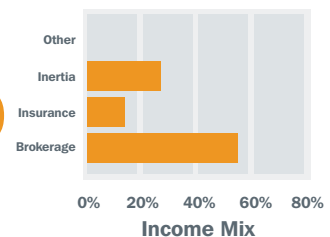
The UK business has continued to post solid growth despite the softer retail trading environment with total sales increasing by 10%, revenue up by 15%, margin increasing 4% and an EBITDA growth of 44%. Insurance and inertia revenues continue to deliver strong growth with a low cost of delivery.

Despite a very challenging economic environment, our partner, PC World, continues to be the clear computer retail market leader and is gearing for significant future growth as it is now nearly a year in to a comprehensive Business Renewal and Transformation Plan which is seeing improved new store formats, product range and customer service.

In April 2008, we extended our contract with PC World to 31 December 2013, effectively extending the existing five-year contract by more than two years. This extension, our third, is a strong endorsement of the synergies between our two businesses, effectively extending our relationship over a ten-year period.

46%

Volume Contribution



- ▲ Revenue up 15% to £8.1m
- ▲ EBITDA up 44% to £3.6m
- ▲ EBITDA margin up from 9% to 44%
- ▲ Gross margin up from 4% to 76%
- ▲ Volumes up by 10%
- ▼ Average Deal Value down £97



Spain

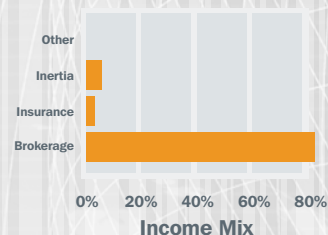
The Spanish economy has been one of the worst hit of all Western European economies.

Despite this, and a corresponding decline we have seen in front end volume into our business, the maturity of our product in the Spanish market has seen us benefit from a solid contribution from Inertia and Insurance channels which commenced in 2008 as the business reached its third anniversary. Despite revenue being severely impacted at the front end of the business, EBITDA margin grew 7% to 27%.

Notwithstanding the challenging retail market conditions, we remain highly optimistic about the opportunities we are presented with in Spain to expand our distribution channels significantly so that we can capitalise on the market when trading conditions improve.

8%

Volume Contribution



- ▼ Revenue down 35% to €1.5m
- ▼ EBITDA down 10% to €0.4m
- ▲ EBITDA margin up 7% to 27%
- ▲ Gross margin up 9% to 40%
- ▼ Volumes down by 19%
- ▼ Average Deal Value down €199



Other

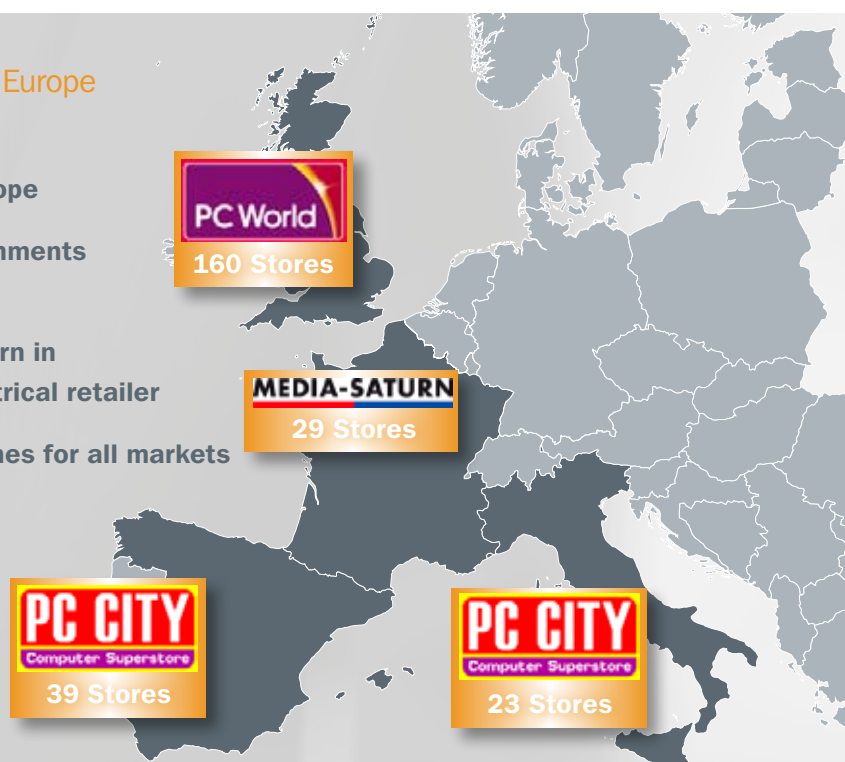
ThinkSmart's new start operations in New Zealand and Italy, plus a number of months trading in two States in the U.S. contributed the remaining 4% of volume into the business. Both the New Zealand and Italian businesses enter their first full year of trading in 2009. The U.S. business will not trade through 2009.

6. GROWTH OUTLOOK

We have a solid outlook for EBITDA growth, and the opportunity to grow market share in our European territories which will position us strongly for accelerated growth on the improvement of global economic conditions.

Pursuing Market Share Gains in Europe

- Pursuing Market Gains in Europe
- Move to multi-channel environments in both Spain and France
- Running trial with Media-Saturn in France, Europe's largest electrical retailer
- Growth in recurring income lines for all markets



During 2009, ThinkSmart has a significant opportunity to grow its distribution channels in Europe to set the business up well for strong market share gains through 2010 and beyond.

France

In France we have recently commenced a four store trial with the German group Media-Saturn, the largest electrical retailer in Europe with 750 stores across 16 countries. Success in the trial would see ThinkSmart extend its offering into all 29 stores across France. Importantly, the French market from the outset will adopt a multi-channel approach seeing ThinkSmart able to distribute its products through multiple retail channel outlets.

Spain & Italy

Despite the economic challenges being experienced in the Spanish market, our core business in Spain remains profitable, and will derive increasing income from its Insurance and inertia streams. DSG International has signalled its commitment to Spain, and has structured its business to ride out current market conditions, whilst introducing a number of new format stores to emulate

those of the PC World operation in the UK. In addition to its relationship with PC City in Spain, ThinkSmart is now in active dialogue with a number of key providers in the Spanish computer retailing market seeking to extend its distribution channels in this profitable market.

In Italy, PC City has also undergone a significant restructuring programme which will complete through early 2009. This has seen the business move to implant its stores as the computer zone within the larger UniEuro mixed electrical stores. There are 96 UniEuro stores across Italy, 14 of which now have PC City implant stores. It is forecast that as many as 40 new implants may be created over the next 18 months which provides significant scope for increasing ThinkSmart's footprint in that market.

Stabilisation in the UK

The UK business has been structured appropriately to weather the full impact of the recessionary environment and is expected to deliver a sustained EBITDA performance through 2009. Customer demand remained strong through 2008 with ThinkSmart achieving a 10% growth

Operational Excellence Drives Australian Growth

- **Strong partner performance**
- **Increasing contribution from separate Warranty Services Product**
- **New QuickSmart in store processing system improves customer experience and operational efficiency**



105 Stores +15 in NZ



24 Stores



350 Stores +65 in NZ



125 Stores

in applications from PC World stores, despite a drop of approximately 10% in sales on a like for like period. The UK business is expected to trade stably through 2009, with a continued growth from Inertia and Insurance income lines.

Australasia

Within the Australasian region, the ThinkSmart business has achieved sustained growth with its partners during 2008 with JB Hi-Fi and Dick Smith both notably proving very resilient in the marketplace.

Through 2009, the Australasian business expects to build on this base and has a significant focus with its partners on driving operational efficiencies and an improved customer experience through the launch of its new QuickSmart online application system.

The QuickSmart system will remove the need for manual identity checks and improve the accuracy and banding of approval limits that are set through the use of strong predictive scorecards. These scorecards are in turn, expected to see an increase in customer approval rates whilst also seeing a reduction in future arrears.

Across the Tasman, growth in the New Zealand business will come through the extended store network with ThinkSmart having recently rolled out across all 65 Dick Smith stores in New Zealand.

Guiding Principles for Growth

In order to position its business for strong, accelerated growth on improvement of global economic conditions, ThinkSmart has aligned its business to three governing principles during this period.

- 1) **Growth through cash flow not debt** – The business has no net debt and organic growth will be funded by cash flow from operations.
- 2) **Pace of expansion to be governed by performance**
- 3) **Alignment with marketing leading partners** – In every market in which it operates, ThinkSmart partners with market leading retailers and funders. During 2009, the business is focused on extending these partnerships in the European market place specifically with a view to gearing the business for market share growth.

7. CORPORATE AND SOCIAL RESPONSIBILITY



People

ThinkSmart's goal as an employer is to create and maintain an open and energetic culture, where staff can grow and develop. By providing the right training, tools, leadership and professional support, we aspire to enable our employees to develop into highly productive, knowledgeable, and loyal individuals.

These goals are primarily fostered through our "PeopleSmart" programme which aims to build a great place to work and cultivate the values of "people, performance, and culture". PeopleSmart is made up of a committee of employees from various departments to organise activities that align employees to the PeopleSmart values. PeopleSmart also acts as a forum for the discussion of workplace issues, in order to improve the work environment for ThinkSmart's employees.

Environment

ThinkSmart is pleased to be working with Officeworks, part of the Wesfarmers group, to launch a new green trade-in programme for technology products.

Under the programme, ThinkSmart will incentivise new customers to trade in their old equipment through a recycling programme, in receipt for a \$100 voucher when taking out a new RentSmart contract.

Community

At a corporate level, and through its PeopleSmart initiative, ThinkSmart looks to give back to the community both financially and by donating time. At a corporate level ThinkSmart is a contributor to the St John of God Cancer Centre for the treatment of cancer patients, as well as the provision of hospitality to their families.

At a team level, employees in the business have given generously and participated actively in a range of community based initiatives including: Quarterly blood donation to the Red Cross; Australia's Biggest Morning Tea (the Cancer Council); Daffodil Day (the Cancer Council); National Ride to Work Day; Make a Wish Foundation; Sids and Kids; and Movember (Prostate Cancer Foundation of Australia).



FINANCIAL REPORT

FINANCIAL YEAR ENDED 31 DECEMBER 2008

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CORPORATE INFORMATION

ABN

24 092 319 698

Directors

P Mansell (Chairman)

N R Montarello (Managing Director)

D Griffiths

S Penglis

Company Secretary

N Barker

Registered Office

Level 1, The West Centre

1260 Hay Street

West Perth, WA 6005

Australia

Principal place of business

Level 1, The West Centre

1260 Hay Street

West Perth, WA 6005

Australia

Phone: 61 8 9463 7500

Share Register

Computershare Investor Services Pty Limited

Level 2, 45 St Georges Terrace

Perth, WA 6000

Australia

Phone: 1300 850 505

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

Solicitors

Freehills

250 St Georges Terrace

Perth, WA 6000

Australia

Bankers

ANZ

West Perth

Australia

Auditors

KPMG

Australia



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

Directors

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

Names, qualifications, experience and special responsibilities

PETER MANSELL (Age 62)

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

Non-Executive Chairman

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

DAVID GRIFFITHS (Age 58)

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

Non-Executive Director

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

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

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

NED MONTARELLO (Age 47)

Managing Director and Chief Executive Officer

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

STEVEN PENGLIS (Age 48)

B. Juris and B. Law

Non-Executive Director

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

DIRECTORS' REPORT

Company Secretary

NEIL BARKER

B.Bus, FCPA

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

Directors' Meetings

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

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

A – Number of meetings attended

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

Corporate Governance Statement

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

BOARD OF DIRECTORS

Role of the Board

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

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

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

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

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

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

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

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

Board process

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

Independent professional advice and access to company information

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

Composition of the board

The names of the directors of the Company in the office at the date of this report are set out in the Directors' report on page 15 and 16 of this report. The composition of the board is determined using the following principles:

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

NOMINATION AND REMUNERATION COMMITTEE

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

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

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

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

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

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

DIRECTORS' REPORT

REMUNERATION REPORT - AUDITED

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

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

A. PRINCIPLES OF COMPENSATION - AUDITED

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

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

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

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

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

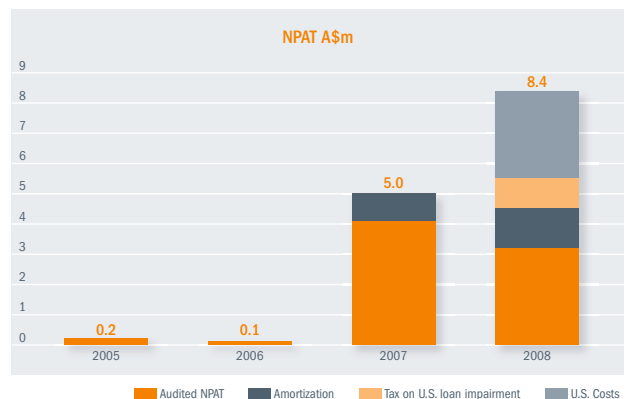
- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance

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

Linking Executive Remuneration to Group Performance

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

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



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

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

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



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

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

Non-Executive Directors

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

Non-Executive Director's fees

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

Executive pay

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

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

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

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

Base pay

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

Short-term performance incentive

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

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

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

DIRECTORS' REPORT

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

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

Long term incentive

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

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

B. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION - AUDITED

Amount of remuneration

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

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

Key management personnel and other executives of the Group

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

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

* Mr C McDonald resigned on 11 April 2007.

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

The Company has no employees.

DIRECTORS' REPORT

C. SERVICE AGREEMENTS - AUDITED

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

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

In the event of retrenchment, the executives listed in the table on page 21 are entitled to the payment provided for in the service agreement, where applicable. The employment of the executives may be terminated by the Company without notice by payment in lieu of notice.

The service agreements also contain confidentiality and restraint of trade clauses.

D. SHARE BASED COMPENSATION - AUDITED

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

Options and rights over equity instruments granted as compensation - audited

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

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

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

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

Exercise of options granted as compensation - audited

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

	No of shares	Amount paid \$/share
2008		
N Montarello	805,893	\$1.125
G Varma	280,000	\$0.4375
G Varma	93,333	\$0.625
2007		
No options were exercised in 2007.		

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

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

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

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

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

(b) The minimum value of options yet to vest is \$nil as the service criteria may not be met and consequently the option may not vest.

(c) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the option is exercised. The maximum values presented above are based on share price as at 31 December 2008. As at 31 December 2008, the maximum value is nil as the options are out of the money.

Analysis of movement of options - audited

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

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

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

(b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(c) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a binominal option-pricing model with no adjustments for whether the performance criteria had been achieved. In 2008, lapsed options have nil value as they were out of the money when they expired.

DIRECTORS' REPORT

E. BONUS REMUNERATION - AUDITED

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

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

(a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008 financial year.

(b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

AUDIT AND RISK COMMITTEE

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

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

The Committee's primary roles are:

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

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

RISK MANAGEMENT

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

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

The risk management policy can be found on the Company's website (www.thinksmartworld.com).

Financial reporting

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

Environmental regulation

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

ETHICAL STANDARDS

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

Conflict of interest

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

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

Code of conduct

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

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

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

TRADING IN GENERAL COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

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

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

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

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

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

provided they are not in possession of inside information.

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

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

DIRECTORS' REPORT

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

DISCLOSURE POLICY

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

ThinkSmart's Disclosure Policy is summarised below.

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

COMMUNICATION WITH SHAREHOLDERS

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

In summary, the Continuous Disclosure Policy operates as follows:

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

PRINCIPAL ACTIVITIES

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

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

OPERATING AND FINANCIAL REVIEW

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

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



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

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

DIVIDEND

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

	Cents per share	Total amount	Franked/ unfranked	Date of payment
Declared and paid during the year 2008				
Interim 2008 ordinary	2	1,933,788	Franked	13 October 2008
Declared after year end				
After the balance sheet date, the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.				
Final 2008 ordinary	1.5	1,450,340	Franked	14 April 2009

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

Dividends have been dealt within the financial report as:

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS

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

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

SHARE OPTIONS

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

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

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

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

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

UNISSUED SHARES UNDER OPTIONS

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

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

All options expire on the earlier of their expiry date or termination of the employee's employment. Further details are included in the remuneration report on page 20 to 24.

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

NON-AUDIT SERVICES

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

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

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

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 27.



AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration which forms part of this report, is included in page 30 of the financial report.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to be 'P Mansell', written over a faint circular stamp or watermark.

P Mansell

Director

Perth, 20 February 2009

AUDITOR'S INDEPENDENCE DECLARATION



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

To: the directors of ThinkSmart Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2008 there have been:

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

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'D P McComish'.

D P McComish
Partner

Perth

Dated: 20 February 2009

DIRECTORS' DECLARATION



1. In the opinion of the Directors of ThinkSmart Limited (the "Company"):
 - a) The financial statements and notes and the remuneration disclosures that are designated as audited in the Remuneration report of the Directors' report, set out on pages 15 to 77, are in accordance with the Corporations Act 2001, including:
 - I. Giving a true and fair view of the Company's and the Group's financial position as at 31 December 2008 and of their performance, for the financial year ended on that date; and
 - II. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b) The financial report also complies with International Financial Reporting Standards as disclosed in note 2;
 - c) The remuneration disclosures that are designated as audited in the Remuneration report of the Director's report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures, Corporations Act 2001 and the Corporations Regulations 2001, and
 - d) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2008.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'P Mansell', written over a faint horizontal line.

P Mansell

Director

Perth, 20 February 2009

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

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

Earnings per share

Basic (cents per share)	33	3.34	0.80
Diluted (cents per share)	33	3.22	0.73

The attached notes form an integral part of these Income Statements

BALANCE SHEETS

AS AT 31 DECEMBER 2008

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

The attached notes form an integral part of these Balance Sheets

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

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

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

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

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

2. Basis of Preparation

STATEMENT OF COMPLIANCE

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

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

BASIS OF MEASUREMENT

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

3. Significant Accounting Policies

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

a) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved when the company has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of

subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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

b) BUSINESS COMBINATIONS

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

c) CASH AND CASH EQUIVALENTS

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

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

d) PLANT AND EQUIPMENT

Acquisition of Assets

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

Depreciation

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

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

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

Gains and losses on disposal

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

e) LEASED ASSETS

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

Operating leases

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

Finance leases

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

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

f) TRADE AND OTHER ACCOUNTS PAYABLES

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

g) INVESTMENTS

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

h) FINANCIAL ASSETS

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

Effective interest method

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

NOTES TO THE FINANCIAL STATEMENTS

Loans and receivables

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

Insurance prepayment

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

i) IMPAIRMENT OF ASSETS

Financial assets

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

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

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

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

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

financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

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

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

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

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



j) INTANGIBLE ASSETS

Intellectual Property

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

Inertia Assets and Distribution Network Assets

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

■ *Inertia Assets*

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

■ *Distribution Network Assets*

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

Funding Agreements

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

Software Development

Software development relates to the development of the Group’s proprietary SmartCheck credit application processing software system. Software development costs are capitalised only up to the point when the software

has been tested and is ready for use in the manner intended by management.

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

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

k) GOODWILL

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

l) GOVERNMENT GRANTS

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

m) EMPLOYEE BENEFITS

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

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

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

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

Share-based payments

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-

line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

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

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

n) INVENTORIES

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

o) REVENUE RECOGNITION

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

Funder Income

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

Unguaranteed Residual Interest in Equipment (inertia income)

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

■ *Ongoing rental income*

Where the asset acquired from the funder is rented to third parties the income from that rental is brought to

account when the control of the right to receive this income is attained and can be reliably measured, usually on a monthly basis.

No ongoing rental income is brought to account in respect of the unexpired rental contracts.

■ *Income earned from sale of equipment*

Where the asset acquired is sold the net sale proceeds are brought to account at the time of the sale.

Insurance Income

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

p) FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

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

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

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

cash equivalents for the purpose of the statement of cash flows.

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial asset at fair value through profit or loss

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

Other

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

Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

q) INCOME TAX

Current tax

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the

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

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

Current and deferred tax for the period

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

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangement and tax sharing agreement

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

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

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

r) GOODS AND SERVICES TAX

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

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

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

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

s) FOREIGN CURRENCY TRANSACTIONS

Functional and presentation currency

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

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

Transactions and balances

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

Group companies and foreign operations

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

t) EARNINGS PER SHARE

Basic earnings per share

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

Diluted earnings per share

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

u) CORPORATE DEVELOPMENT COSTS

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

v) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an

outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

w) LEASE PAYMENTS

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

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

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

x) FINANCE INCOME AND EXPENSES

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

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

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

y) SEGMENT REPORTING

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

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

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

z) DETERMINATION OF FAIR VALUE

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

Intangible assets

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

Investment in equity and debt securities

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

Trade and other receivables

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

Non-derivative financial liabilities

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

Share-based payment transactions

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

Financial guarantees

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

aa) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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

- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 31

NOTES TO THE FINANCIAL STATEMENTS

December 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Officer in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its geographical segments. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

- Revised 101 Presentation of Financial Statements introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 31 December 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in single statement of comprehensive income for its 2009 consolidated financial statements.
- AASB 2008-7 Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The Group has not yet determined the potential effect of the amendment.

4. Critical accounting judgements and key sources of estimation uncertainty

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

which form the basis of making the judgments. Actual results may differ from these estimates.

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

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

a) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

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

b) KEY SOURCES OF ESTIMATION UNCERTAINTY.

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

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

- Note 16 – measurement of the recoverable amounts of cash-generating units containing goodwill

- Note 15 – recoverable amount of intangible assets
- Note 7 – utilisation of tax losses
- Note 22 – measurement of share based payments
- Note 28 and 29 – contingent assets and liabilities

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

5. Financial Risk Management

OVERVIEW

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

The Audit and Risk Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures

and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the Group.

Credit Risk

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

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

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

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

Guarantees

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

Liquidity risk

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

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

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

- Secured bank overdraft facility of \$250,000. Interest

NOTES TO THE FINANCIAL STATEMENTS

would be payable at ANZ's reference rate plus a margin of 0.175%.

- Secured bill acceptance facility of \$5,000,000, in which \$2,500,000 was drawn down during 2008. Interest would be payable at prevailing bank rate.
- Other operational facilities are set out in note 24 (c).

Market risk

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

Currency risk

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

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

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

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

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

Interest rate risk

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

Capital management

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

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

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



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

6. Profit

Profit is arrived at after crediting/(charging) the following items:

a) REVENUE

Distribution income	-	-	3,300,000	1,500,000
Funder income	23,223,026	23,488,399	-	-
Revenue received on sale of equipment	4,479,536	3,420,294	-	-
Rental income	5,968,474	4,321,571	-	-
Insurance brokerage income	4,396,117	4,058,586	-	-
Government grant	-	149,000	-	-
Other revenue	831,360	916,414	-	-
	38,898,513	36,354,265	3,300,000	1,500,000

b) EMPLOYEE BENEFITS EXPENSE

Payments to employees	11,973,216	9,571,770	-	-
Share options cost	55,000	54,709	-	-
Provision for employee entitlements	685,298	430,610	-	-
	12,713,514	10,057,089	-	-

c) DEPRECIATION EXPENSE

Depreciation of plant and equipment	216,853	165,732	-	-
Depreciation of leasehold improvements	22,847	138,715	-	-
Depreciation of self funded rentals	6,053	11,496	-	-
Depreciation of web sites	1,023	1,949	-	-
Depreciation of lease equipment & software	162,909	121,110	-	-
	409,686	439,002	-	-

d) AMORTISATION EXPENSE

Amortisation of software	210,389	109,319	-	-
Amortisation of funding agreement	173,012	22,039	-	-
Amortisation of distribution network	131,082	142,928	-	-
Amortisation of inertia contracts	1,263,194	825,930	-	-
Amortisation of intellectual property	32,091	32,091	-	-
	1,809,768	1,132,307	-	-

NOTES TO THE FINANCIAL STATEMENTS

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

6. Profit (continued)

e) FINANCE (COSTS)/BENEFITS

Interest revenue	– other entities	163,724	38,723	24,191	34,382
	– related parties	-	29,405	1,759,365	-
Total finance benefits		163,724	68,128	1,783,556	34,382
Interest expense	– other entities	(50,752)	(236,858)	(8,139)	-
	– related parties	-	(285,055)	-	-
Total interest costs		(50,752)	(521,913)	(8,139)	-
Finance charges		(588,326)	(116,440)	(44,326)	(241)
Total finance benefit/(cost)		(475,354)	(570,225)	1,731,091	34,141

f) REVERSAL OF IMPAIRMENT/ (IMPAIRMENT COSTS)

Reversal of impairment/ (impairment) of intercompany receivable	-	-	-	5,259,676
	-	-	-	5,259,676

g) OTHER EXPENSES

Loss on sale of property and equipment	26,845	-	-	-
Other expenses	2,231,892	3,326,225	51,057	22,411
	2,258,737	3,326,225	51,057	22,411

Other expenses comprise of other administrative expenses including postage, travel and training.

h) LISTING COST

Listing cost	-	4,195,856	-	4,195,856
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Costs comprising underwriting fees and other professional costs arising on the listing of the company's shares have been expensed. Costs directly attributable to the issue of new equity have been deducted from the capital raised.

i) RESTRUCTURING COST

Impairment of plant and equipment	40,278	-	-	-
Impairment of intangible assets	197,398	-	-	-
Other	178,508	-	-	-
	416,184	-	-	-

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



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

7. Income Tax

The major components of income tax expense for the year ended 31 December are:

Current income tax				
Current income tax charge	2,435,166	2,410,009	884,425	1,586,746
Adjustment for prior period	(711,493)	(30,025)	(711,493)	(141,028)
Deferred income tax				
Origination and reversal of temporary differences	248,940	(1,196,829)	675,564	(1,895,868)
Adjustment for prior period	398,260	-	398,260	-
Change in unrecognised temporary differences	119,313	-	-	-
Income tax expense/ (benefit) reported in income statement	2,490,186	1,183,155	1,246,757	(450,150)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

7. Income Tax (continued)

DEFERRED TAX ASSET

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

DEFERRED TAX LIABILITY

Prepayments	4,249	6,285	4,249	4,539
Deals awaiting settlement	35,470	46,632	35,470	46,632
Intangible assets	796,080	1,300,398	-	-
Government grant	19,993	40,230	-	-
Plant & equipment	1,190,494	-	1,190,494	-
ABL servicer fee	98,510	-	98,510	-
Other debtors	11,766	18,344	22,135	60,775
Total	2,156,562	1,411,889	1,350,858	111,946
Net deferred tax asset	965,568	2,037,291	1,079,252	2,157,616
Net deferred tax liability	662,343	1,144,475	-	-

UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	865,639	-	-	-
	865,639	-	-	-

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the group can utilise the benefits therefrom.

TAX CONSOLIDATION

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



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

8. Trade and other receivables

Current					
Trade receivables ⁽ⁱ⁾		1,882,885	1,843,253	-	-
Allowance for doubtful debts		(258,615)	(265,704)	-	-
Sundry debtors		-	143,907	-	-
		1,624,270	1,721,456	-	-
Non-current					
Trade receivables ⁽ⁱ⁾		210,384	-	-	-
		210,384	-	-	-

(i) No interest is charged on trade receivables. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

9. Inventories

Promotional stock on hand		-	31,701	-	-
Rental asset inventory		65,520	31,732	-	-
		65,520	63,433	-	-

10. Prepayment - current

Insurance prepayment	3(h)	3,037,015	2,638,579	-	-
Retailer marketing prepayment		714,226	670,651	-	-
Other prepayment		758,650	726,166	14,164	15,128
		4,509,891	4,035,396	14,164	15,128

11. Other current assets

Deals awaiting settlement		118,233	155,441	-	-
Other		75,137	16,046	1,417	10,111
		193,370	171,487	1,417	10,111

12. Prepayment – non current

Insurance prepayment	3(h)	3,648,041	2,346,693	-	-
		3,648,041	2,346,693	-	-

NOTES TO THE FINANCIAL STATEMENTS

	Plant & Equipment	Leasehold improvements	Self funded rentals	Web Sites	Lease equipment & software	Total
	\$	\$	\$	\$	\$	\$

13. Plant & Equipment

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

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



	% of Equity		Consolidated		Company	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$

14. Other Financial Assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated					
	Funding Agreements	Software	Distribution network	Intellectual Property	Inertia Contracts	Total
	\$	\$	\$	\$	\$	\$

15. Intangible Assets

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

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

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

16. Goodwill

Balance at beginning of financial year	5,284,678	5,955,823	-	-
Effect of movement in exchange rate	(423,127)	(671,145)	-	-
Balance at end of financial year	4,861,551	5,284,678	-	-

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

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

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

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

17. Assets Pledged as Security

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

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

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

18. Trade and other payables

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

19. Current Borrowings

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

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

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

(ii) The \$2,459,304 fixed term loan relates to a \$2,500,000 180-day commercial bill denominated in Australian Dollar with a fixed interest of 4.04% pa. The loan is payable on the 25 May 2009. In the prior year, a \$2,039,891 fixed term loan was denominated in Sterling and charged with interest in arrears at a margin of 2.5% over the Halifax Bank of Scotland base rate. The loan was secured over the assets of RentSmart Limited and was repaid in 2008. Refer to note 24(c) for security of the loan.

20. Non- Current Borrowings

Hire purchase and lease liabilities ⁽ⁱ⁾	-	33,040	-	-
	-	33,040	-	-

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

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

21. Other – non current payable

Product Plan ⁽ⁱ⁾	38,648	104,975	-	-
	38,648	104,975	-	-

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

22. Issued Capital

(a) ISSUED AND PAID UP CAPITAL

96,689,390 Ordinary Shares fully paid (2007: 95,030,164)	23,614,091	22,242,200	23,614,091	22,242,200
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In 2007, the board authorised the subdivision of the shares with the ratio of 1:4. Consequently, fully paid ordinary shares in the Company as at 31 December 2006 of 22,245,913 were converted to 88,983,652 fully paid ordinary shares. The share split was to ensure an appropriate capital structure at the time of the IPO.



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

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

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

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

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

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

(b) SHARE OPTIONS – EMPLOYEE OPTIONS

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

The following options were issued over ordinary fully paid shares:

After the 1:4 share split

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

NOTES TO THE FINANCIAL STATEMENTS

22. Issued Capital (continued)

Before the share split

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

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

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

(b) SHARE OPTIONS – EMPLOYEE OPTIONS

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

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

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

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

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

(b) SHARE OPTIONS – EMPLOYEE OPTIONS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. Issued Capital (continued)

(c) DIVIDENDS

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount	Franked/ unfranked	Date of payment
2008				
Interim 2008 ordinary	2	1,933,788	40% franked	13 October 2008
2007				
No dividend was declared in 2007.				

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

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

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

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

(d) FRANKING CREDITS

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$621,575 (2007: nil). A tax instalment will be paid in March 2009 which will provide sufficient franking credit for the payment of fully franked dividend on 14 April 2009. In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group is allowed to assume the relevant subsidiaries' franking credits. As at 31 December 2008, the subsidiaries have no franking credits for the benefit for the Company (2007: nil).

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

23. Reserves

Equity settled employee benefits reserve ⁽ⁱ⁾	147,142	92,142	147,142	92,142
Foreign currency translation reserve ⁽ⁱⁱ⁾	(1,968,454)	(563,299)	-	-
	(1,821,312)	(471,157)	147,142	92,142

(i) The share-based compensation reserve arises on the grant of share options to executives under the employee share option plan. Amounts are transferred out of the reserves and into issued capital when the options are exercised. Further information about the share-based payments is made in note 22(b) to the financial statements.

(ii) The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

24. Notes to the Cash Flow Statement

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Reconciliation of cash and cash equivalents				
Cash balance comprises:				
- cash and cash equivalents	4,547,371	5,059,229	596,205	525,962

The Group's exposure to interest rate and sensitivity analysis of the financial assets and liabilities are discussed in note 30.

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

NOTES TO THE FINANCIAL STATEMENTS

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

24. Notes to the Cash Flow Statement (continued)

(c) Financing facilities

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

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

(d) NON-CASH FINANCING TRANSACTIONS

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

25. Leases and Hire Purchase Obligations

FINANCE LEASES – LEASING ARRANGEMENTS

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

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

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

The Company has no finance lease liabilities.

OPERATING LEASES – LEASING ARRANGEMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

26. Segment Information

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

Primary Segment Reporting Geographical segments	Europe		Australasia	
	2008	2007	2008	2007
Total external revenues	20,157,084	20,108,230	18,648,361	16,246,035
Intersegment revenue	-	-	2,615,158	48,311
Total segment revenue	20,157,084	20,108,230	21,263,519	16,294,346
Segment results before restructuring costs	4,899,901	4,802,664	7,189,225	8,648,903
Restructuring costs	-	-	-	-
Segment results	4,899,901	4,802,664	7,189,225	8,648,903
Unallocated expenses				
Capital raising cost				
Income tax expense				
Profit for the period				
Segment assets	17,532,962	17,617,608	8,480,497	6,478,407
Unallocated assets				
Total assets				
Segment liabilities	4,217,258	6,159,946	5,070,402	1,227,993
Unallocated liabilities				
Total liabilities				
Capital expenditure	836,511	41,140	271,621	95,417
Depreciation	208,565	263,605	158,734	175,397
Amortisation of intangible assets	1,394,276	968,858	373,737	163,448
Impairment losses on intangible assets and PPE	-	-	-	-
Impairment losses reversed on intangible assets and PPE	-	-	-	-

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



USA		Elimination		Consolidated	
2008	2007	2008	2007	2008	2007
93,069	-	-	-	38,898,513	36,354,265
-	-	(2,615,158)	(48,311)	-	-
93,069	-	(2,615,158)	(48,311)	38,898,513	36,354,265
(2,076,868)	-	(2,023,938)	(5,307,827)	7,988,320	8,143,740
(416,184)	-	-	-	(416,184)	-
(2,493,053)	-	(2,023,938)	(5,307,827)	7,572,135	8,143,740
				(1,871,197)	(2,026,663)
				5,700,938	6,117,077
				-	(4,195,856)
				(2,490,186)	(1,183,155)
				3,210,752	738,066
61,110	-			26,074,569	24,096,015
				365,032	2,666,685
				26,439,601	26,762,700
245,857	-			9,533,517	7,387,939
				-	3,767,377
				9,533,517	11,155,316
101,721	-			1,209,852	136,557
42,387	-			409,686	439,002
41,755	-			1,809,768	1,132,307
237,676	-			237,676	-
-	-			-	-

NOTES TO THE FINANCIAL STATEMENTS

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

27. Remuneration of auditors

Audit services:				
Audit and review of financial reports (Australia)	276,312	195,189	146,728	56,469
Audit and review of financial reports (Overseas)	102,312	80,462	-	-
	378,624	275,651	146,728	56,469
Services other than statutory audit:				
Other assurance services				
Tax	77,385	18,132	34,150	-
Investigating Accountants Report for IPO (Australia)	-	577,402	-	577,402
Other services	-	3,527	-	1,425
	77,385	599,061	34,150	578,827

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

28. Commitments and Contingent Liabilities

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

29. Contingent Inertia Assets

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

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

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

At 1 December 2006, the Group acquired RentSmart Limited. Inertia income of \$4,803,652 was recognised as an intangible asset as part of the business combination. At 31 December 2008, this asset is carried at amortised cost of \$1,981,772.

This inertia intangible is not included in the contingent asset disclosed above.



30. Financial Instruments

(a) INTEREST RATE RISK

Profile

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

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

Sensitivity analysis

Fixed rate instruments

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

Variable rate instruments

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

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

(b) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments (continued)

(c) CREDIT RISK MANAGEMENT

Exposure to credit risk

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

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

Impairment losses

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

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

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

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

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

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

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

(d) CURRENCY RISK MANAGEMENT

Exposure to currency risk

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

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

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

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

The following significant exchange rates applied during the year:

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

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007:

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments (continued)

(e) LIQUIDITY RISK MANAGEMENT

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

	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
CONSOLIDATED					
31 December 2008					
Trade and other payables	4,258,699	(4,258,699)	(4,258,699)	-	-
Term loans	2,459,304	(2,500,000)	(2,500,000)	-	-
Hire purchase and lease liabilities	116,136	(119,836)	(119,836)	-	-
Product plan (non-current)	38,648	(38,648)	-	(38,648)	-
	6,872,787	(6,917,183)	(6,878,535)	(38,648)	-
31 December 2007					
Trade and other payables	5,156,154	(5,156,154)	(5,156,154)	-	-
Term loans	2,039,891	(2,039,891)	(2,039,891)	-	-
Hire purchase and lease liabilities	99,720	(99,720)	(66,681)	(28,558)	(4,481)
Product plan (non-current)	104,976	(104,976)	-	(104,976)	-
	7,400,741	(7,400,741)	(7,262,726)	(133,534)	(4,481)
COMPANY					
31 December 2008					
Trade and other payables	42,229	(42,229)	(42,229)	-	-
Term loans	2,459,304	(2,500,000)	(2,500,000)	-	-
	2,501,533	(2,542,229)	(2,542,229)	-	-
31 December 2007					
Trade and other payables	5,213	(5,213)	(5,213)	-	-



31 Related party disclosures

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

Non-Executive Directors

- P Mansell (Chairman)
- S Penglis
- D Griffiths
- C McDonald - resigned on 11 April 2007

Executive Directors

- N Montarello (Managing Director and Chief Executive Officer)

Executives

- N Barker (Group Chief Financial Officer, ThinkSmart Ltd)
- S McDonagh (Executive General Manager, RentSmart Unit Trust) – Appointed on the 10 July 2008
- M Radotic (Managing Director - Continental Europe, ThinkSmart Europe Ltd)
- G Varma (Group Chief Information Officer, ThinkSmart Ltd)
- G Parry (Managing Director - UK, RentSmart Limited)
- J Rozenbroek (Group Commercial Director, ThinkSmart Europe Ltd)

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

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

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

INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

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

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

LOANS TO KMP AND THEIR RELATED PARTIES

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

OTHER KMP TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS

31 Related party disclosures (continued)

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS

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

EMPLOYEE OPTIONS MOVEMENT

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

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

EMPLOYEE OPTIONS

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

No options were held by key management person related parties.

MOVEMENT IN SHARES

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 Related party disclosures (continued)

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

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

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

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

PARENT

The parent entity of the Group is ThinkSmart Limited.

SUBSIDIARIES

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

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

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

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

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

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

OTHER RELATED PARTIES

KMP related parties

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

32. Subsequent events

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

33. Earnings per share

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

BASIC EARNINGS PER SHARE

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

	2008 \$	2007 \$
Profit after tax from continuing operations	3,210,752	738,066
Earnings used in the calculation of basic EPS from continuing operations	3,210,752	738,066
Tax effected listing cost	-	3,352,489
Earnings used in the calculation of basic EPS from continuing operations before listing cost	3,210,752	4,090,555

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	96,028,963	92,472,024

DILUTED EARNINGS PER SHARE

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

	2008 \$	2007 \$
Profit after tax from continuing operations	3,210,752	738,066
Earnings used in the calculation of diluted EPS from continuing operations	3,210,752	738,066
Tax effected listing cost	-	3,352,489
Earnings used in the calculation of basic EPS from continuing operations before listing cost	3,210,752	4,090,555

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of diluted earnings per share are as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	96,028,963	92,472,024
Shares deemed to be issued for no consideration in respect of:		
Employee options	3,635,142	9,237,473
Weighted average number of ordinary shares used in the calculation of diluted EPS	99,664,105	101,709,497



Independent auditor's report to the members of ThinkSmart Limited

Report on the financial report

We have audited the accompanying financial report of ThinkSmart Limited (the Company), which comprises the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

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

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of ThinkSmart Limited for the year ended 31 December 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

D P McComish
Partner

Perth

Dated: 20 February 2009

ASX ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 March 2009.

SUBSTANTIAL SHAREHOLDER

The number of shares held by substantial shareholders and their associates are set out below:

	No. of ordinary shares	Percentage %
Include those above 5%		
UBS Wealth Management Australia Nominees Pty Ltd	17,654,565	18.26
HSBC Custody Nominees (Australia) Limited	8,663,660	8.96
JP Morgan Nominees Australia Limited	8,577,478	8.87
ANZ Nominees Limited	5,593,122	5.78

VOTING RIGHTS

Ordinary shares

Refer to note 22 of the financial statements.

Options

There are no voting rights attached to the options.

DISTRIBUTION OF EQUITY SECURITY SHAREHOLDERS

	Class of equity security			
	Ordinary Shares		Options	
	No. of holders	No. of shares	No. of holders	No. of shares
1 – 1,000	33	21,916	-	-
1,001 – 5,000	140	461,337	-	-
5,001 – 10,000	102	864,157	-	-
10,001 – 100,000	162	5,462,018	-	-
100,001 and over	46	89,879,962	9	4,906,667

The number of shareholders holding less than a marketable parcel of ordinary shares is 74.

UNQUOTED EQUITY SECURITIES

	No. on issue	No. of holders
Options issued under the ESOP to take up ordinary shares	4,906,667	9

The Company has no other unquoted equity securities.

ON-MARKET BUY-BACK

There is no current on-market buy-back.



Twenty largest shareholders

Name	No. of ordinary shares held	Percentage of capital held (%)
UBS Wealth Management Australia Nominees Pty Ltd	17,654,565	18.26
HSBC Custody Nominees (Australia) Limited	8,663,660	8.96
JP Morgan Nominees Australia Limited	8,577,478	8.87
ANZ Nominees Limited	5,593,122	5.78
Wroxy Pty Ltd	4,717,364	4.88
JAWP Pty Ltd	4,291,162	4.44
Cogent Nominees Pty Ltd	3,850,618	3.98
National Nominees Limited	3,772,974	3.90
Kemast Investments Pty Ltd	3,357,740	3.47
Phoenix Properties International Pty Ltd	3,000,000	3.10
Citicorp Nominees Pty Limited	2,782,181	2.88
Bond Street Custodians Limited	2,473,779	2.56
Aileendonan Investments Pty Ltd	1,970,140	2.04
Egmont Pty Ltd	1,685,093	1.74
Darju Pty Ltd	1,463,360	1.51
Kelyna Margaret Penglis	1,314,000	1.36
Moat Investments Pty Ltd	1,226,732	1.27
Citicorp Nominees Pty Limited	1,190,577	1.23
Hotlake Pty Ltd	1,178,760	1.22
RBC Dxia Investor Services Australia Nominees Pty Limited	1,151,303	1.19

